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June 28, 2006

BY OVERNIGHT DELIVERY AND E-FILE

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, MA 02110

Re: Bay State Gas Company, D.T.E. 06-31

Dear Ms. Cottrell:

Enclosed for filing, on behalf of Bay State Gas Company ("Bay State"), please find Bay State's responses to the following Information Requests:

From the UWUA:

UWUA-2-1 UWUA-2-2 UWUA-2-4 UWUA-2-5 UWUA-2-7

Please do not hesitate to telephone me with any questions whatsoever.

Very truly yours,

Patricia M. French

cc: Caroline Bulger, Esq., Hearing Officer
 Alexander Cochis, Assistant Attorney General (4 copies)
 Charles Harak, Esq. (UWUA)
 Nicole Horberg Decter, Esq. (USW)
 John K. Habib, Esq. (NSTAR)
 James Avery, Esq. (Berkshire Gas Company)

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
SECOND SET OF INFORMATION REQUESTS FROM UWUA LOCAL 273
D.T.E. 06-31

Date: June 28, 2006

Responsible: Stephen H. Bryant, President

- UWUA 2-1: (a) Please provide a table showing staffing levels at Bay State Gas Company by job category or function as of January 1, 2005 and all changes in staffing levels (for all employees ---- union, management, non-union) from January 1, 2005 to date, by major job category or job function. Include in this table the date of any increases or reductions in staff (e.g. "June 1, 2005: added [or eliminated or relocated] 2 telephone service reps").
- (b) Please include a projection of changes to staffing levels through June 30, 2009.

- RESPONSE: (a) Please see Attachment UWUA 2-1 for a table showing Bay State Gas Company's staffing levels from December, 2004 through May, 2006. This table, which is broken down between (1) union, (2) non-union weekly, and (3) non-union bi-weekly employees, includes an explanation for month-to-month changes in staffing levels. The net effect from January 1, 2005 through May 31st 2006 is as follows: (1) a reduction in 2 union positions due to retirements / terminations; (2) no change in weekly employees because new hires offset retirements and terminations; and (3) an increase in seven bi-weekly positions due primarily to a shift in regulatory personnel from NiSource Corporate Services to Bay State. This information broken down by job category or job function is not readily available.
- (b) Bay State chooses not to speculate on how staffing levels may change between now and June 30, 2009, until decisions are made to move business processes currently being performed by Bay State employees to another entity, which is on hold during the pendency of this proceeding, or until the decision is made about which business functions would be affected by such a change. Otherwise, staffing projections would just be guesses and not be based on business judgment.

					Bay State Gas Company						
					Headcount Data						
					Regular/Temp Fulltime Employees						
					December 31st 2004 to May 31st 2006						
					Weekly	Bi Weekly					
			Union		Non Union	Supervision+		Total		Changes - Net Effect	
DEC	31	2004	451		28		71	550			
JAN	31	2005	454	3	28	0	78	7	560	3 Union New Hire, 8 Regulatory Positions reclassified from Co 12, 1 Service Supv retired	
FEB	28	2005	452	(2)	29	1	79	1	560	1 Union Retire & 1 termination, 1 Weekly Logistics Clerk, 1 Distribution Supervisor	
MAR	31	2005	450	(2)	29	0	79	0	558	2 Union terminated	
APRIL	30	2005	450	0	28	(1)	79	0	557	1 DSM Clerk terminated,	
MAY	31	2005	449	(1)	28	0	79	0	556	1 Union to LTD	
JUNE	30	2005	448	(1)	28	0	79	0	555	1 Union to LTD	
JULY	31	2005	440	(8)	28	0	80	1	548	8 Union retirement/terminated, 1 Service Supv rehire	
AUG	31	2005	439	(1)	28	0	80	0	547	1 Union deceased	
SEPT	30	2005	442	3	25	(3)	80	0	547	3 Locate Techs reclassified from Weekly to Union.	
OCT	31	2005	447	5	25	0	80	0	552	5 Union new hire.	
NOV	30	2005	446	(1)	24	(1)	80	0	550	1 Union deceased, 1 Weekly Dist Clerk retired	
DEC	31	2005	447	1	24	0	80	0	551	1 Union new hire	
JAN	31	2006	446	(1)	25	1	81	1	552	1 Union retire, 1 weekly Call Center from Co 12, 1 biweekly Trainer Call Center from Co 1	
FEB	28	2006	446	0	26	1	80	(1)	552	1 weekly Engineering assistant new hire, 1 Manager Dispatch to Co12 (Stores)	
MAR	31	2006	448	2	27	1	79	(1)	554	2 Union new hires, 1 DSM rep new hire, GM to Co 12	
APRIL	30	2006	447	(1)	27	0	79	0	553	1 Union resigned	
MAY	31	2006	449	2	28	1	78	(1)	555	2 Union new hires, 1 biweekly	

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
SECOND SET OF INFORMATION REQUESTS FROM UWUA LOCAL 273
D.T.E. 06-31

Date: June 28, 2006

Responsible: Stephen H. Bryant, President

UWUA 2-2: Please provide a copy of any decision(s) of the Indiana Utility Regulatory Commission in Cause No. 42194 or any other docket involving the plans of NIPSCo to close maintenance facilities in Indiana.

RESPONSE: Objection. The question is irrelevant to this proceeding where Bay State's service quality and where the relationship between the jurisdictional company, Bay State, and its Parent, NiSource, is in issue. Notwithstanding this objection, but rather specifically maintaining it, please see Attachment UWUA-2-2 (A) and Attachment UWUA-2-2 (B), which provide the requested NIPSCo orders.

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN RE: AN EMERGENCY COMPLAINT AGAINST)
NORTHERN INDIANA PUBLIC SERVICE)
COMPANY ("NIPSCO") BY THE COUNTY OF)
LAPORTE INDIANA AND THE CITY OF)
MICHIGAN CITY, INDIANA RELATING TO)
THE PRACTICES AND ACTS AFFECTING)
OR RELATING TO THE SERVICE OF NIPSCO)
AS BEING UNSAFE, UNREASONABLE AND)
INSUFFICIENT PURSUANT TO I.C. 8-1-2-54,)
AND REQUEST FOR A COMMISSION)
INVESTIGATION PURSUANT TO I.C. 8-1-2-58)
AND REQUEST FOR AN INTERIM STATUS)
QUO ORDER)

CAUSE NO. 42194

FINAL ORDER

APPROVED: AUG 10 2005

BY THE COMMISSION:

David W. Hadley, Commissioner

Scott R. Storms, Chief Administrative Law Judge

1. **Background of Proceeding.** On March 8, 2002, the LaPorte County Board of Commissioners and the City of Michigan City ("Petitioners" or "Complainants") filed an Emergency Complaint ("Complainant") with the Indiana Utility Regulatory Commission ("Commission"). Northern Indiana Public Service Company, Inc., (hereinafter referred to as "NIPSCO" or "Respondent" or "Company") is a public utility incorporated in Indiana providing electric and natural gas service to thirty (30) counties in northern Indiana. Throughout certain counties, NIPSCO maintains Local Operating Areas ("LOAs" or "maintenance facilities") that contain equipment and supplies used by road crews to repair and maintain its electric and gas utilities. NIPSCO currently operates twelve (12) LOAs located in Hammond, Gary, Crown Point, Valparaiso, LaPorte, Plymouth, Monticello, South Bend, Goshen, Angola, Peru, and Fort Wayne, Indiana. NIPSCO employees working out of these LOAs are represented by their collective bargaining unit, the United Steelworkers of America. In their Complaint the parties state that NIPSCO sent a letter to the Indiana Department of Workforce Development and the United Steelworkers of America, the collective bargaining unit representing its employees, in which it announced its intention to consolidate certain of its operations beginning on or about March 18, 2002, and to complete the consolidation by the end of May, 2002. Complaint at 2.

The Complaint filed in this Cause indicates that as part of its consolidation plans, NIPSCO intended to close Local Operating Areas in Hammond, LaGrange, Crown Point, LaPorte and Plymouth, Indiana and consolidate the districts served by such maintenance facilities into adjoining districts. The effect of this consolidation will be to substantially reduce the number of facilities serving such districts while enlarging the size of each district thereby eliminating a significant number of employees, both management and bargaining unit members. Respondent's own best estimate of the jobs to be eliminated under such plan is from 230-300 employees. *Id.* at 2-3. According to the Complaint, each of the facilities NIPSCO intends to

close houses critical emergency response equipment and has repair capabilities including hydraulic equipment needed to service the emergency equipment. In addition, each of the facilities houses crews who perform roadside assistance to workers in the field who use the emergency equipment. *Id.* at 3.

The Petitioners' indicate that the shutdown of these facilities, and the enlargement of NIPSCO's LOAs, would inevitably cause undue delay in NIPSCO's ability to respond to power outages and emergencies thereby placing the public at risk of serious bodily harm. In addition, the proposed consolidation would jeopardize emergency medical, fire and police department personnel acting to protect the public, and could result in NIPSCO's workers being placed in harm's way. While the shutdowns and district realignment may save NIPSCO a relatively small, yet unknown, sum of money such actions by Respondent would carry a substantial cost to the public in the form of heightened risk of grave bodily injury, death, catastrophic property damage and other irreparable harm. *Id.* at 3.

Indiana Code Section 8-1-2-4 requires every public utility in Indiana to furnish "reasonably adequate service and facilities." In their Complaint the Petitioners indicate that the Respondent has begun layoffs in anticipation of its consolidation plan and if it is permitted to close the facilities and expand its LOAs NIPSCO will fail to satisfy this statutory mandate. Accordingly, the Complainants requested that the Commission issue a "status quo order", as Respondent's actions, if allowed to continue, would cause irreparable harm to residents of the City of Michigan City and the County of LaPorte, as well as all the other counties in northern Indiana which are affected by NIPSCO's planned "consolidation." *Id.* at 4. The Complainants further requested that the Commission set this matter for an evidentiary hearing pursuant to IC 8-1-2-54 and/or in the alternative open an investigation pursuant to IC 8-1-2-58. *Id.* at 5.

In support of its Complaint, the Petitioner attached the affidavits of Mr. Marlow Harmon, President LaPorte County Board of Commissioner; Mr. Jonathan R. Goble, President and Chief Executive Officer of LaPorte Regional Health Systems; and, Mr. Richard B. Essig, Vice President of United Steel Workers Local 12775. Each of these affidavits discussed issues and events that the Complainants contend demonstrate the unsafe, unreasonable and insufficient service faced by NIPSCO's ratepayers which will continue or will deteriorate further as a result of the Respondent's planned consolidation.

Following its review of the Complaint and supporting affidavits, the Commission, on March 15, 2002, issued an Order requiring NIPSCO to "cease taking any actions in furtherance of its planned maintenance office closings and service district expansion" until a preliminary review was completed by the Commission. As part of its March 15, 2002 Order the Commission scheduled a Prehearing Conference and Preliminary Hearing for April 10, 2002, to allow for the presentation of additional testimony by the parties. On March 26, 2002, NIPSCO filed its *Notice of Appeal* from the Commission's order issued March 15, 2002. On March 21, 2002, NIPSCO also filed a *Motion for Vacatur of the Commission's March 15, 2002 Order or a Stay of that Order Pending Appeal*. On March 28, 2002, the United Steel Workers of America ("USWA") filed a *Petition to Intervene* in this Cause. On April 8, 2002, the County of Lake and the Lake County Council also filed separate *Petitions to Intervene*. Each of these Petitions to Intervene

were subsequently granted by the Presiding Officers.¹ On March 28, 2002, NIPSCO filed a *Motion to Dismiss* in this Cause.

On April 10, 2002, the Commission held a Prehearing Conference and Preliminary Hearing at 9:30 a.m., in Room TC10 of the Indiana Government Center South. At the Prehearing Conference, the Complainants presented the prefiled testimony of Mr. Richard Essig, Vice-President of the United Steelworkers Local 12775; Mr. Mark Donaldson, Deputy Chief of the Michigan City Fire Department; Mr. Mike Sandy, a NIPSCO gas serviceman; and John Goble, Chief Executive Officer of LaPorte Regional Health Systems ("LaPorte Hospital"). The Respondent presented the Testimony of Mr. Timothy Dehring, General Manager for NIPSCO; Mr. Robert Schacht, Vice-President and Chief Operating Officer of NIPSCO; and Mr. Michael Bechdol, a NIPSCO field manager. The Indiana Office of the Utility Consumer Counselor ("OUCC") also appeared at the Prehearing Conference and Preliminary Hearing but did not offer testimony. Members of the general public were present at the Prehearing Conference and Preliminary Hearing.

At the conclusion of the Prehearing Conference and Preliminary Hearing the Presiding Officers denied NIPSCO's motions to vacate and dismiss the Commission's March 15, 2002 Order, and advised the parties that the Commission's Order would remain in effect "pending further order of the Commission that will be issued following the conclusion of a full evidentiary hearing in this matter." Tr. 197. NIPSCO appealed the Presiding Officers' denial of its motions to the full Commission, which upheld the determination made by the Presiding Officers. An Evidentiary Hearing in this matter was scheduled for June 23-24, 2003.

On April 24, 2002, the Commission approved an Order in this Cause which included determinations made in its Order issued on March 15, 2002. On April 29, 2002, NIPSCO filed its *Notice of Appeal* of the Commission's April 24, 2002 Order. The Indiana Court of Appeals affirmed the Commission's decision *Northern Indiana Public Service Company v. LaPorte County* 791 N.E.2d 271 (Ind. Ct. App. 2003).

While the Commission's Order, which maintained the status quo by prohibiting the consolidation of LOAs, remained in effect the Evidentiary Hearing was continued several times at the request, and with the agreement, of the parties to allow for the opportunity to attempt to resolve this matter by agreement. On June 16, 2003, NIPSCO filed three settlement agreements ("Settlement Agreements"), one with Michigan City, Indiana; one with the City of LaPorte, Indiana; and a third agreement with the City of Plymouth, Indiana. Following the filing of the Settlement Agreements the Presiding Officers revised the procedural schedule to allow the parties to file additional testimony either in support or in opposition to the Settlement Agreement.

¹ The Hammond City Council filed a *Petition to Intervene* on January 28, 2003. On October 17, 2003, Bob Corbin, Sheila Corbin, Dan Klein and Vicki Klein, individually as residential customers, and the City of Crown Point, Indiana, filed *Petitions to Intervene*. Each of these petitions was subsequently granted by the Presiding Officers.

In an effort to ensure that the Commission would have a full and complete record upon which it could base its decision, the parties proposed that the proceeding be conducted in two phases. The first phase would consist of the presentation of witnesses and testimony, subject to cross examination, constituting all evidence related to the *Complaint* phase of this proceeding. The second phase would consist of presentation of evidence in support of, and in opposition to, the *Settlement Agreements* filed in this proceeding. The parties' proposal was accepted by the Presiding Officers.

Pursuant to notice given and published as required by law, proof of which was incorporated into the record, an Evidentiary Hearing was commenced in this cause on October 20, 2003 at 9:30 a.m. EST, in Room TC10, Indiana Government Center South, Indianapolis, Indiana. The Evidentiary Hearing was reconvened on October 21, November 25, 2003 and January 15, 2004. At the Evidentiary Hearing NIPSCO; LaPorte County; Michigan City; Intervenor USWA; Lake County; and, the City of Hammond presented the testimony of several witnesses.² While the OUCC did not prefile testimony in this matter it did participate in the Evidentiary Hearing.³ Members of the general public were present at the Evidentiary Hearing.

Based upon the applicable law and the Evidentiary Hearing, the Commission now finds:

1. Commission Jurisdiction and Notice. Proper notice of the Hearings conducted in this Cause was given as required by law. NIPSCO is a public utility incorporated under the laws of the State of Indiana, and is engaged in rendering gas and electric utility service to the public. NIPSCO owns and operates natural gas and electric transmission and distribution systems for the transmission, delivery and furnishing of gas and electric service within the State of Indiana. NIPSCO is subject to the jurisdiction of this Commission as provided in the Public Service Commission Act, as amended. Therefore the Commission has jurisdiction over the parties and the subject matter of this Cause.

2. Evidence Presented in this Cause.

A. Complainants' and Intervenor's Complaint Testimony. Petitioner, LaPorte County, and Intervenor Lake County, Lake County Council, Crown Point City Council and individual customers Bob Corbin, Sheila Corbin, Dan Klein and Vicki Klein, as well as intervenor United Steelworkers of America, submitted, or joined in and/or adopted the testimony filed by other petitioner/intervenor, that was submitted in support of the relief sought at the Preliminary Hearing held on April 10, 2002, as well as supplemental Direct Testimony filed on December 31, 2002. The evidence submitted in support of petitioner LaPorte County and the aforementioned intervenors is as follows.

Michael Sandy. Mr. Michael Sandy has been with NIPSCO for more than thirty years and is currently a serviceman. Mr. Sandy testified concerning the effects of consolidation and the history of reductions that have already taken place and their impact upon service. In his

² In addition, the Presiding Officers granted a request to incorporate the testimony presented at the Prehearing Conference and Preliminary Hearing into the record of the Evidentiary Hearing in this matter.

³ On December 21, 2002, the OUCC filed *Public's Notice of Intent Not to Prefile Testimony*.

testimony Mr. Sandy discussed the impact of the closing of the Michigan City maintenance facility and the associated personnel cuts. Mr. Sandy worked at the Michigan City maintenance facility for the eight years prior to its closure and then worked at the LaPorte facility. The LaPorte facility initially had approximately seventeen gas repair personnel dispatched from it, but that number was eventually reduced to twelve. When NIPSCO closed the Michigan City facility, it gave assurances that the LaPorte maintenance facility would remain open to service customers. The LaPorte maintenance facility was constructed in 1957 for the stated purpose of improving customer service and demonstrating NIPSCO's commitment to the community.

He stated that the Company has tried dispatching personnel out of their homes but service personnel working out of their homes have limited equipment available to them as first responders. Therefore, they can only maintain the distribution system that lies above ground as they do not have the necessary equipment to facilitate underground repairs which are done by NIPSCO gas street crews. Gas mains range in size from five-eighths up to 30 inches, and so a serviceman simply cannot carry everything you need on a crew truck. NIPSCO's gas street crews report and work out of local operating headquarters.

Mr. Sandy described an incident on March 14, 2002, in which he was personally involved that he believes demonstrates the negative impact of the consolidation plan. He was working on second shift, and at approximately 5:00 p.m., someone walking a dog reported a gas leak in Michigan City. He was the first responder and arrived within 15 minutes. Using his leak testing equipment, he discovered a twenty percent gas air mixture coming from a sewer manhole. Because a gas street crew was needed to repair the underground leak, NIPSCO called a crew which was still at the LaPorte headquarters getting ready to go home. However, they were able to respond and arrived at the scene in approximately 45 minutes. According to Mr. Sandy, while the gas crew was able to confirm the leak, they needed a rotary drill (a device that drills through roads and driveway surfaces) to permit them to pinpoint and test for leaks. Prior to the Status Quo Order of March 15, 2002, NIPSCO had already begun dismantling the LaPorte facility and moving equipment. NIPSCO has only one rotary drill in LaPorte County, which is kept at the LOA headquarters. Since the drill had already been moved to Valparaiso, someone had to drive there and back to get it, which took approximately two hours. If the LaPorte facility had been shut down, the repair would have taken even longer because the crew would have started from Valparaiso and then had to return there for the drill.

Mr. Sandy indicated that all gas leaks are dangerous and can lead to explosions if not timely repaired. A serviceman as the first responder can only assess the problem and sometimes stop the leak by shutting off a meter. If the leak is underground, he can only secure the area and request a gas street crew. It is important that the gas street crew is able to arrive in a timely manner with the necessary equipment, as the first responder cannot make every situation safe.

In his supplemental testimony, Mr. Sandy testified he believes that the NIPSCO workforce would be reduced to dangerous levels if the Company is permitted to close its facilities. This would yield unnecessarily long delays in responding to emergency calls and create an unsafe condition. Furthermore, when the first responders arrive at the scene of emergency situations, they do not always have the proper tools or equipment to stop gas leaks. Mr. Sandy explained that NIPSCO has one gas serviceman working in Michigan City, but there

is so much work that he has to be supplemented with two LaPorte District servicemen every day. At times all three are covering gas leaks. If the responder does not have the correct equipment, the time it would take to import that equipment could amount to a two hour road trip (assuming decent weather). Danger could arise in the midst of this delay. There is an entire array of equipment that area servicemen cannot bring with them to the scene of emergencies. Mr. Sandy testified that at the present time the staff has been cut to its bare bones minimum and some employees are working as many as 80 hours per week (though not 80 hours every week).

Mr. Sandy explained that the operating headquarters are used all the time. The headquarters are used to store tools and equipment, house the repair shops, maintain storerooms and records, conduct staff meetings and store trucks out of the weather so in case of an emergency employees do not have to clean ice and snow off the trucks to respond. At the Evidentiary Hearing, Mr. Sandy identified photographs showing the large volume of materials and equipment maintained at the LaPorte operating headquarters. NIPSCO also has employees at these facilities, such as the Gas Street Department which is responsible for the installation and repair of all gas mains in the area. If all these employees are moved to Valparaiso, it will pose a potential disaster to portions of LaPorte County. These facilities are already a part of NIPSCO's rate base, i.e., NIPSCO's customers have already paid for these facilities and all the benefits derived from these facilities. Mr. Sandy points out that NIPSCO proposes to dispense with all the benefits of the facilities but does not seem to be offering a corresponding reduction in rates.

Mr. Sandy then discussed the fact that there is too much equipment to keep all of it at a first responder's home or at substations. Each job is different and so the response employees must have all sorts of equipment at a central location. When items are kept at the central facilities, the employees working there keep them in working order. Employees can't fix a gas leak if equipment isn't working properly. Further, the line department has large bucket trucks, pole sets and things of that nature that literally weigh tons. If that equipment is left unattended, it won't be there long or will be damaged by the elements.

Finally, Mr. Sandy explained that staffing is not merely NIPSCO's concern but should also be a concern of the Commission. Customers complain bitterly to him, and he can't blame them because it takes so long to solve problems. If NIPSCO is allowed to make more cuts in personnel it will create an impossible situation.

Richard Essig. Richard Essig indicated that he has been an employee of NIPSCO for 38 years, 34 of which he served as a lineman. Mr. Essig has been in the field for close to 40 years and has actual knowledge of the condition of NIPSCO's equipment. Mr. Essig sponsored Exhibit RBE-1, which is a comparison of customers, workforce and routine maintenance expenditures for the years 1985 and 2001. Mr. Essig also sponsored Exhibit RBE-2, which shows the NIPSCO District Headquarters as they existed prior to the first wave of closings; Exhibit RBE-3, which shows the closings of the Warsaw and Michigan City facilities; and RBE-4, which shows the effect of the proposed closings under NIPSCO's current Consolidation Plan.

Mr. Essig described Exhibit RBE and testified that the exhibit shows that NIPSCO's customer base has increased by 313,918, while its physical union workforce has declined by 1,281 employees, or 43 percent, and its routine maintenance expenditures have decreased by \$11

million, or approximately 16 percent (not accounting for inflation). Mr. Essig stated that this problem is exacerbated by the fact that much of NIPSCO's equipment is outdated and in need of repair and replacement, such as poles and cross-arms that are old (some dating back to 1937) that often break in strong winds. The gas distribution system has leaks in it and should be updated with new gas lines.

Mr. Essig next addressed the fact that there were a volume of items, including personnel, vehicles and equipment, needed by first responders in order to make situations safe which could not be kept on the responders' trucks, in his home, or at the substation sites. He sponsored Exhibit RBE-5 which is a printout of items, most of the items which are normally kept at each of the District Headquarters and/or available in the district storerooms. Many items need to be contained in secure, enclosed facilities such as those found at District Headquarters. According to Mr. Essig, many items would sustain damage from the weather if kept outside unprotected. Delays will result under the Consolidation Plan when items need to be obtained from a remaining District Headquarters location. Those delays could have an adverse impact on safety and customer satisfaction. In support of this concern, Mr. Essig sponsored Exhibits RBE-6, RBE-7 and RBE-8, which are copies of JD Powers reports for electric utilities across the country. In each case, NIPSCO falls well below the national average.

Mr. Essig described his personal experience regarding the impact of the closing of the Warsaw facility on service quality and safety. Since the Warsaw facility was closed, Mr. Essig indicated that he has personally observed increases in response time. It is simply a matter of distance, as "miles are miles." Even if an outlying repairman is near, often a repair will require specialized equipment such as bucket trucks, backhoes, trenchers and boom trucks. Also, the required parts to make the repair may be found only at the District Headquarters, requiring additional time to obtain those parts after the repair has been evaluated. Although every situation involving electric or gas service may not be a life or death matter many situations are, and NIPSCO's response times have increased as facilities have been closed.

In his supplemental testimony Mr. Essig explained that the USWA is involved in this proceeding as it represents the physical workforce, or production and maintenance workers, at NIPSCO. The Steelworkers have 30,000 members who expect NIPSCO to provide safe and reliable gas and electric services. Mr. Essig then explained his understanding of NIPSCO's plan relating to the closings of the district headquarters. NIPSCO planned to consolidate the Crown Point and Hammond district with Gary; the LaPorte district with Valparaiso; the Plymouth district with Goshen and the LaGrange district with Angola, and then close and abandon the Crown Point, Hammond, LaPorte, Plymouth and LaGrange districts. According to Mr. Essig, in undertaking this plan NIPSCO has seemingly determined without sufficient explanation that by closing five districts headquarters and moving personnel, equipment, and materials farther away from customers, it will somehow be able to improve service, safety and reliability.

While Mr. Essig agreed that first responders in the field that go directly to the site of problems may be able to arrive more quickly, they will not necessarily be able to rectify the problem. Mr. Essig observed that NIPSCO had only recently begun tracking response times, and that it was tracking only arrival times and not the time it took to make the scene safe. Mr. Essig considers the latter measurement as far more important because the first responder's quick

arrival at a scene is far less important if he is unable to accomplish anything. Mr. Essig emphasized that safety is and should be the issue of greatest concern and not merely the arrival of a warm body.

Mr. Essig explained that in practically 100% of the calls in bad weather conditions, such as storms or severe winds, workmen need help from the district headquarters. The first responder is simply not equipped to handle situations where electric wires or poles are down or when large gas leaks or ruptures occur. These situations are life-threatening and any greater delays in getting the workmen the assistance they need simply subjects the public to greater harm.

Mr. Essig disagreed with NIPSCO's assertion that the district headquarter facilities are put to minimal use. As Mr. Essig explained, employees are given job assignments during regular workdays at these facilities; electric area servicemen report to district facilities daily for job assignments and to secure materials; garage repair facilities function day and night repairing equipment; bucket trucks and trenchers are kept in heated buildings to ensure they will operate in cold weather; and, storerooms maintain material to provide for service and repair during normal and after hours emergencies. With the large size and volume of material and equipment needed for gas and electric repair (such as poles, transformers, pipes and equipment), it would be impossible to properly equip a remote site, and thus first responders would not be able to obtain the equipment they need. Mr. Essig indicated that practically every trip from a county where the headquarters have been shut down would add more than one hour of travel time. Emergencies tend to arise in the midst of miserable weather, which slows down the trip immensely, especially when the personnel and trucks have to travel an additional thirty miles or more.

Mr. Essig disagreed with NIPSCO's claim that its consolidation model has proven effective in Warsaw. Since the Warsaw facility was consolidated in 1999, one electric serviceman now services Warsaw. When the linemen from Warsaw were removed to Goshen, there were 24 total. Today, that number is 12, which is a 50% reduction in 3 years. Mr. Essig indicated that the total number of union employees between April 2002 and November 2002 declined by 90, a 6% reduction, and now NIPSCO is proposing even more cuts. Mr. Essig stated that it now takes normally 45 minutes of travel time from Goshen to Warsaw to respond to emergencies, and sees this steadily going downhill. Mr. Essig has received complaints from members of the public, fire departments and police departments in the Warsaw area regarding NIPSCO's response times after the consolidation.

In Mr. Essig's opinion, NIPSCO will not provide reasonably adequate service to its customers if the five LOAs are closed. NIPSCO will be removing facilities necessary for the safety of the public even though those facilities have been in the rate base. Mr. Essig felt compelled to testify in this proceeding because it's not right to sit back and do nothing and thereby allow NIPSCO to put the public in harm's way for nothing more than a motive to save money. Mr. Essig emphasized that if anyone is harmed or loses his or her life because necessary relief to their disastrous situation was delayed, he doesn't want that on his head.

Mark Donaldson. Mark Donaldson, the Deputy Chief of the Michigan City Fire Department, presented testimony in support of the Complaint at the Preliminary Hearing (which

testimony was subsequently incorporated into the Direct Testimony of petitioners and intervenors). Deputy Chief Donaldson has been in that position for six and one-half years at the time of the April 10, 2002 hearing and had been with the Department for 17 years. He has extensive training in hazardous materials, incident command, strategy command and tactics and is also a certified Emergency Medical Technician. He wrote the operations manual for the Department, and is responsible for personnel management, budgeting, fleet operations as well as supervision of the training, inspection and investigative divisions.

As part of his testimony, Deputy Chief Donaldson compiled emergency response times involving NIPSCO and compared the response times during periods in which NIPSCO had a District Headquarters in Michigan City to response times after that facility was closed in 1997. When the Department has an event that requires assistance from another agency, its 911 dispatchers record the time the request was made ("time notified") and the arrival time of the requested assistance ("time arrived") on E-911 call sheets. The call sheets often do not reflect the arrival time because the line officer/firefighter may have to attend to other firefighting duties and would not be able to call in the arrival time to the E-911 dispatcher.

Deputy Chief Donaldson sponsored Exhibits MKD-1, MKD-2 and MKD-3, which are the call sheet records from 1996, 2000 and 2001 involving requests for responses from NIPSCO, such as events involving NIPSCO's equipment, ruptured gas mains, power lines down on the road, and storm assistance issues. According to Mr. Donaldson, in 1996, there were 61 calls requesting assistance from NIPSCO; 25 of those had records of the time notified and time arrived, which averaged 27 minutes. 1996 was the last year in which NIPSCO had a District Maintenance building in Michigan City (located on Greenwood Avenue). In 2000, eleven of the 48 calls for NIPSCO's assistance had records of the time notified and time arrived, which averaged 33 minutes. In 2001, 13 of the 49 calls for NIPSCO's assistance had records of those times, and the average arrival time was 41 minutes.

Deputy Chief Donaldson observed that NIPSCO's response time had increased by 14 minutes from 1996 to 2001, and had increased 8 minutes from 2000 to 2001. When the Department is confronted with a situation that requires the utility's assistance, it cannot render the aid and assistance to victims or property until the gas or electric issue has been resolved. In emergency situations, minutes mean the difference between life and death. In Deputy Chief Donaldson's opinion, NIPSCO's consolidation plan to close the five District Headquarters will pose an actual threat of harm to persons in the community. This is proven by the fact that when NIPSCO has closed facilities in the past, the result is longer response times and greater risk to the public safety.

Jonathan Goble. Jonathan Goble is the President and Chief Executive Officer of LaPorte Regional Health Systems, the parent company of LaPorte Hospital ("LaPorte Hospital" or "Hospital"). He submitted Direct Testimony at the status quo hearing held on April 10, 2002 (which testimony was subsequently incorporated into the Direct Testimony of petitioners and intervenors). In his testimony, Mr. Goble indicated that LaPorte Hospital is a 227 bed facility located in downtown LaPorte. It is both a gas and an electric customer of NIPSCO. The Hospital is served by two separate distribution paths from NIPSCO for its electric service, as required by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO). Though not

mandated, the Hospital also has back up generators which provide approximately 50% of the Hospital's power needs if the feeds from NIPSCO fail.

In his testimony, Mr. Goble testified that on January 31, 2002, LaPorte Hospital experienced six seconds of darkness. Mr. Goble subsequently determined that the hospital's primary connection had been down for approximately 12 hours, and that the Hospital had been drawing power from the secondary power source during this time. Mr. Goble testified that NIPSCO did not notify LaPorte Hospital that its primary connection was down and he was therefore unaware that the hospital's electric needs were being served by the secondary source. Mr. Goble indicated that following the six seconds of darkness, that occurred when the Hospital lost its secondary source of power, the LaPorte Hospital's power needs (at a level that had been immediately reduced by 50%) were being served by backup generation. Mr. Goble testified that LaPorte Hospital contacted NIPSCO immediately and asked when the power would be restored. According to Mr. Goble the Hospital never heard anything from NIPSCO. After waiting an hour, Mr. Goble stated that he contacted NIPSCO and was informed that it would be one to two hours before power would be restored. Following this conversation, Mr. Goble indicated that power was restored in approximately 5 minutes.

Mr. Goble indicated that it is essential that LaPorte Hospital's energy needs are supported by sufficient crews, resources and equipment to allow NIPSCO to communicate fully and promptly to allow the Company to restore service within minutes of an outage. This did not occur on January 31, 2002.

Deborah Chubb. Deborah Chubb is the director of Imagination Station, a licensed not-for-profit childcare provider for 123 children located in Michigan City, Indiana. On August 7, 2002, a gas leak forced the evacuation of the children from Imagination Station. The Michigan City Water Department was attempting to use a backhoe to dig up and repair a damaged waterline. A NIPSCO employee was present attempting to locate the gas line. A father of one of the children stopped in Ms. Chubb's office and informed her that he smelled gas and heard a sound outside that sounded like a giant steam kettle. When Ms. Chubb went to the front door, the smell of gas was so overwhelming that she was immediately dizzy. Some of the school age children were playing outside approximately 40 feet from the gas leak. The teachers outside were gathering the children and returning them to the building.

Ms. Chubb observed a gas cloud that was part of a huge plume. She immediately went to the back of the facility and advised the staff to move the children to the opposite end of the building. She returned to her office to get a report detailing who was still in the building. Jeff Katz, the premises owner where Imagination Station is located, stopped a patrolman who had called in the event. He proceeded to assist Ms. Chubb in evacuating the 69 children still in the facility.

The local community expressed concern over the incident, as detailed in the three news articles sponsored by Ms. Chubb as Exhibits DC-1, DC-2 and DC-3. After the event, NIPSCO personnel met with the parents of the children who attend Imagination Station. In her opinion these meetings were not productive because many of the parents seemed intimidated and nervous during the meeting with NIPSCO representatives. She said during her meeting with NIPSCO

representatives they tried to minimize the seriousness of the event and stated there was no danger. Based upon Ms. Chubb's experience and the reactions of the law enforcement personnel on the scene, the gas leak posed a real and dangerous threat to the facility and the children served by it. Ms. Chubb is concerned about the length of time to took NIPSCO to stop the leak and the danger it presented to children in her care. While Ms. Chubb learned that NIPSCO personnel (first responders) were on the scene, they apparently did not have the equipment or ability to stop the leak. She expressed concern that NIPSCO's closing of facilities that provide service, in the name of cost cutting, will increase response times to emergencies and could have grave consequences.

Frederick R. Pinkerton, Jr. Frederick R. Pinkerton, Jr. is a consultant with F.R. Pinkerton & Company in Atlanta, Georgia. Mr. Pinkerton testified that he has been involved with 12 projects at electric, electric and gas combination, or gas utilities, which have assessed the effects of changes to the "network" of local distribution centers (LDCs), local operating areas (LOAs), and crew/servicemen assignments (often referred to collectively as the service delivery network or SDN). These projects have been for utilities that serve, in aggregate, over 17 million customers across more than 190 thousand square miles in 14 states. He has experience analyzing and modeling the impacts of LDC consolidations (and additions) and LOA boundary changes. He has assisted clients with assessing response-time impacts, travel cost versus LDC facility cost trade-offs, LOA boundary optimization, staffing requirements, area servicemen zone development and safety considerations. He has published multiple articles addressing these issues.

Mr. Pinkerton testified on behalf of the Petitioners/Intervenors regarding common impacts and considerations associated with closing LDCs and adding assigned territories or LOAs to the remaining LDCs, described the general analysis and planning approach that has been used at other utilities to assess these impacts and considerations, and commented on NIPSCO's proposed plans. He also reviewed the testimony and exhibits submitted at the April 10, 2002 Prehearing Conference and Preliminary Hearing as well as the transcript from that hearing.

Mr. Pinkerton first discussed the motivation of NIPSCO for its consolidation model. NIPSCO's estimated savings of \$140,000 per week in operating expenses is a potential positive impact of, or rather an enticement for, closing the five LDCs. Such closings can eliminate facility operating costs and also result in considerable proceeds from the sale of buildings and other facilities.

As Mr. Pinkerton explained, however, the many negative impacts from such closings must also be considered. As indicated in the chart included in Mr. Pinkerton's testimony, a greater number of LDCs results in relatively lower aggregate travel costs, higher aggregate facilities costs, and better overall responsiveness. When LDCs are closed, aggregate facilities cost decreases, but crews and servicemen must drive farther on average to reach customers, work sites, and replenish truck-stock material (for home-based) which unfavorably affects responsiveness and travel costs. More driving not only increases transportation costs, but also increases "windshield time" which decreases the amount of work site or "wrench time" per shift, resulting in decreased productivity. At some point, the savings from additional LDC closings are

exceeded by the incremental rise in travel costs. Moreover, as the number of LDCs decreases, the rate of incremental change increases for travel cost and responsiveness. In other words, each additional LDC closed will generally have a greater impact on travel costs and responsiveness than a previously closed LDC. The adverse effects of LDC closings are compounded when a first responder arrives and determines that additional equipment, material, and/or labor are required to fix the trouble. In this case, the trouble remains unresolved until the additional resources can be driven from the LDC or a location within the LOA, which are both, on average, farther away when there are fewer LDCs and larger LOAs.

Mr. Pinkerton opined that response times for unscheduled work can be adversely affected by LOA closings. There are many different scenarios for which unscheduled work can be fulfilled, specifically (1) First responder (serviceman)/home-based/with required equipment & material; (2) First responder (serviceman)/home-based/without required equipment & material; (3) First responder (serviceman)/LDC-based/with required equipment & material; (4) First responder (serviceman)/LDC-based/without required equipment & material; (5) Second responder (crew)/LDC-based/with required equipment & material; and (6) Second responder (crew)/LDC-based/without required equipment & material. Of the six unscheduled work fulfillment scenarios, LDC closings should have generally no effect on response times for just the first of these scenarios. For the other five scenarios, LDC closings would most likely result in worse responsiveness to emergency and non-emergency unscheduled work. For scheduled work, LDC closings primarily affect productivity. If the number of servicemen and crews are held constant while productivity decreases, less work will be completed unless productivity is improved elsewhere, overtime is increased, or work is outsourced. From a customer's perspective, LDC closings have little effect on scheduled work as long as increased costs are not passed along through rate increases and appointment standards are regulated.

Analysis methods and tools are available to utilities to determine the impact of proposed service center closing as described in Exhibit FRP-1, which Mr. Pinkerton sponsored. Such projects typically take 8-12 weeks to complete. This is a reasonable amount of time to evaluate options and impacts, considering that service delivery network changes usually endure for many years and affect system reliability, customer service, delivery cost, and safety. The approach described in attachment FRP-1 uses computer modeling to approximate actual service delivery network relationships and characteristics. The existing network configuration of LDCs, LOA boundaries, servicemen and crew assignments, and geographical work demands is modeled to generate travel time and distances, travel cost (vehicle cost per mile and labor cost—windshield time); and responsiveness metrics (various factors including percentage of customers within x minutes of an LDC; percentage of work within x minutes of an LDC; probability distribution of response times for various staffing levels by LDC, region, and entire service territory). Since models are obviously much easier and less risky to manipulate than the actual service delivery network, the above data can be generated for changes to the existing or base-case network configuration.

For example, a utility could generate the above data for test scenarios such as (1) changing the existing LOA boundaries for the existing LDCs to minimize travel time and optimize resource assignment; or (2) adding one or more LDCs in optimal new locations; or (3) closing one or more of the existing LDCs; or (4) some optimal combination of opening new,

closing existing, and changing LOA boundaries; or (5) testing various other ideas or plans. Total cost and responsiveness metrics of the status quo SDN configuration, proposed plans, and additional test scenarios can be charted, compared, and evaluated. In NIPSCO's case, the status quo service delivery network could be compared with the proposed plan for closing five LDCs. Total cost and responsiveness metrics of NIPSCO's proposed plan as well as additional test scenarios could be charted, compared, and evaluated against the total cost and responsiveness metrics of the status quo network configuration, as detailed in the chart included in Mr. Pinkerton's testimony. By understanding the total cost and service characteristics of a utilities current SDN configuration and test scenarios, management can make a more informed decision on which option best balances the needs of all constituents. The type of analysis described in FRP-1 is not new and has been used by many companies in many industries.

Mr. Pinkerton also discussed his opinions regarding the testimony of Timothy Dehring from the April 10, 2002 hearing. As Mr. Pinkerton explained, Mr. Dehring's focus on the area servicemen concept and arrival times unduly draws attention away from a comprehensive look at key impacts of LDC closings. All costs, not just LDC facilities costs, should be evaluated against responsiveness metrics. Mr. Dehring's attempts to inseparably link the implementation and combined merit of the area servicemen concept and LDC closings confuse the individual issues and merits of each. The area servicemen concept can be implemented and evaluated separately and distinctly from LDC closings. Moreover, any real or claimed success of the area servicemen concept may help improve NIPSCO's purported problem with emergency first responder overtime call-out requests, but it does not prove that LDC closings are good for customers or that LDC closings had any role in the call-out solution.

Mr. Pinkerton disagreed with Mr. Dehring's view of the success of the Area Service Model. Success in meeting customer appointments, as described in Exhibit TAD-2 to Mr. Dehring's testimony, is a function of competent scheduling not LDC closings or the area servicemen concept. Exhibit TAD-3 is offered as evidence that response time in the area servicemen model (for a consolidated LOA of Michigan City and LaPorte) is better than in the traditional model (unconsolidated Crown Point). Mr. Dehring implies that this is a valid comparison because the LOAs are very comparable in terms of the amount of off-hour gas leaks and the type of geography in which they operate. In practice, there are many factors that combine to explain the response time characteristics for a particular LOA, such as the number of servicemen responding to leaks, road network characteristics, LDC proximity to gas leaks, and geographic dispersion/concentration of gas leaks. To draw broad conclusions about the reason for response time differences between two different LOAs is imprudent and misleading. A more insightful analysis would be to separately compare average response times and repair times for (1) periods before and after LDC closings and (2) periods before and after area servicemen concept implementation. Further, Mr. Dehring's statement of, "there are a number of utilities, to my knowledge, that have undergone a model of consolidation, and they view it as successful," highlights a common misconception that what might be good for one utilities service delivery network such as LDC closings and/or additions would be good for other utilities. The optimal service delivery network configuration is different for each utility and each utility should understand the impacts of reconfigurations on their own system.

In Mr. Pinkerton's opinion, given all the information that was provided to him regarding the proposed plan to close five local distribution centers, NIPSCO has not done a reasonable job of analyzing and planning the proposed closings. Overall, NIPSCO's consolidation plan falls far short of even minimal standards of prudent business practices because the decision to close the LDCs appears to have been made based on little more than the elimination of LDC facility operating cost; no analyses, reports, or documents have been provided that indicate much attention was given to responsiveness and total cost impacts; and there is no report that outlines how LDCs were determined to be underutilized and duplicative or how the five LDCs were selected for closing. Post-LDC-closing-decision planning appears to focus almost entirely on an area servicemen plan for first responders, with scant acknowledgment, awareness, or justification of second-responder impacts. The implementation plan seems to move forward with LDC closings before even the area servicemen concept has been implemented or tested. The plan appears to be focused on capturing LDC facility cost savings first and addressing any resulting problems later.

B. *NIPSCO's Direct Evidence.*

Mr. Timothy A. Dehring. NIPSCO presented the direct testimony of Timothy A. Dehring in support of its proposal (NIPSCO Ex. 1). Mr. Dehring began his testimony by describing a LOA as a defined geographical area where certain electric and gas operating functions are centrally managed and supported, and sponsored Exhibit TAD-7 which is a map of the proposed Valparaiso LOA. Mr. Dehring said that the Company's electric service and gas service territories have historically been divided into distinct LOAs. Mr. Dehring said that each of NIPSCO's proposed 7 LOAs have one operating headquarters building where certain records, equipment, materials and supplies are kept and from which certain crews are assigned.

Mr. Dehring testified that under NIPSCO's Area Service Model the LOAs would be divided into smaller geographic areas in which the gas and electric area servicemen reside and in which they provide normal and emergency gas and electric service. He said that these smaller geographic areas are called area service territories and he sponsored Exhibit TAD-2 which is a map showing NIPSCO's proposed 24 electric service areas and Exhibit TAD-3 which shows the same information for NIPSCO's 31 gas service areas.

Mr. Dehring testified that the NIPSCO LOAs have historically been reconfigured from time to time to respond to changes in service needs of NIPSCO's customers, investment in new technologies and changes in work practices. He said that any reconfiguration of the LOAs has been and will continue to be consistent with furnishing and improving upon safe and reliable gas and electric service. As an example, he stated that to better respond to customers needs during non-business hours, over the last decade the Company has reviewed means by which emergency, non-business hour responses could be improved. It developed the Area Service Model, implemented it in some areas, found it to be successful, and as a result reconfigured certain LOAs. For example, the creation and staffing of smaller gas and electric service areas in the central service territory resulted in consolidating the Warsaw LOA into the Goshen LOA in 1999.

With regard to this proceeding, Mr. Dehring stated that with the creation of the 31 gas service areas and 24 electric service areas, the Company planned to reconfigure or consolidate 12 existing LOAs into 7 LOAs. The LaPorte LOA was going to be combined with the Valparaiso LOA and the LaPorte operating headquarters building was to be closed. The Hammond LOA was to be combined with the Gary LOA and the Hammond operating headquarters building was to be closed. The LaGrange LOA was to be combined with the Angola LOA and the LaGrange operating headquarters building was to be closed. Mr. Dehring stated that the LaGrange headquarters building closure has since been removed from the Company's plan. All these consolidations were to take place on March 18, 2002. Also, on April 29, 2002, the Company planned to close the Crown Point LOA and combine it with the Gary LOA. The Plymouth LOA would have been split with part going to Goshen and part going to Valparaiso. The Plymouth and Crown Point operating headquarter buildings were to be closed. Also as part of this restructuring plan, the Company plans to move its operating headquarters to a different building in Monticello.

Mr. Dehring testified that the Company's consolidation plan was a result of the implementation of the Area Service Model. Given the new model of remotely locating employees and necessary supplies, some of the existing centralized offices became redundant moving forward. He stated it is not correct to assume that an increase in the size of an LOA has a deteriorating impact on service. While buildings do not provide safe and reliable customer service, the efficient deployment of resources to the jobsite does. The consolidation of LOAs according to Mr. Dehring is the result of the efficient resource deployment. Maintaining buildings which remain vacant the majority of the day and support outdated and inefficient modes of providing customer service is unnecessary. He said that while the consolidation plan increases the size of certain LOAs, the Area Service Model has created a larger number of smaller service areas. Therefore service has been and will be improved.

Mr. Dehring said that, with the deployment of its Area Service Model, all operations were reviewed to determine if any were redundant. He said that the Company made the management decision that the LOAs and the centralized operating facilities were in fact redundant and unnecessary to the Company's operation and its obligation to provide safe and reliable gas and electric service. The Company concluded that the respective LOAs should be consolidated into other LOAs and the related facilities closed. Mr. Dehring said this decision saves unnecessary costs associated with unused buildings and avoids duplication of warehouses and vehicle repair garages and eliminates unnecessary duplication of internal support activities.

Mr. Dehring indicated that these consolidations were not implemented. In compliance with the Commission's March 15, 2002 order and the March 18, 2002 order of the LaPorte County Superior Court, the Company suspended implementation of its plan of reconfiguration and consolidation with the result that the actions that were to be implemented in March and April did not occur.

Mr. Dehring then responded to certain allegations made by Mr. Richard Essig in an affidavit attached to the March 8, 2002 complaint. He stated that the Company's generation, transmission and distribution facilities are built in accordance with industry standards, are well maintained and in accordance with those same standards are in good operating conditions. He

noted the Company recently completed at cost of approximately \$20 million a rebuilding of the east end of NIPSCO's electric transmission system for the sole purpose of better serving its customers in the northeast portion of NIPSCO's electric service territory. In his opinion, the condition of NIPSCO's electric transmission and distribution system is good and it had no impact on its ability to restore service during major outages. Instead, a far greater impact is the Company's lack of success in having electric linemen willing to respond to overtime callouts for purposes of service restoration. Mr. Dehring said that this overtime callout issue was one of the reasons which caused NIPSCO to implement the Area Service Model on a company-wide basis.

Mr. Dehring also disagreed with Mr. Essig's assertions with regard to NIPSCO's gas system and its plant and equipment. He said NIPSCO's gas transmission and distribution system is also well maintained and operated. Mr. Dehring said that the Company's gas distribution improvement program ("GDIP") is far broader than simply moving gas meters to the outside as alleged by Mr. Essig. Rather GDIP is a structured plan to replace all cast iron and uncoated bare steel pipe with plastic pipe throughout its gas service territory. For example, during 2002 Mr. Dehring stated NIPSCO replaced thousands of feet of steel or cast iron pipe in the South Bend area at a cost of approximately \$3 million. He said that NIPSCO has completed similar GDIP projects during the last 30 years with the result being improved gas operating performance and reduced maintenance.

Mr. Dehring then made some general observations about the complaint filed March 8, 2002 in this proceeding. He noted that the complaint states that NIPSCO intends to close down "critical emergency response equipment and repair capabilities". It also alleged that these actions and the consolidation will deny the public the benefits of necessary life saving equipment placing the public at risk of serious bodily harm. Mr. Dehring stated that these allegations have no basis in fact. He said that neither NIPSCO as a corporation, its management, nor any of its dedicated employees have or would develop, devise or implement a business structure or practice which would jeopardize the health, safety or wellbeing of NIPSCO's customers, the public, safety and health officials, or NIPSCO's employees. Mr. Dehring stated that the closings that are a subject of this complaint are a direct result of the Company's efforts to improve safe and reliable service to customers through the implementation of the Area Service Model, not impair it. He also said that this Complaint incorrectly alleges that NIPSCO's best estimate of job eliminations associated with this effort is of the magnitude of 200 to 300 positions. In fact, Mr. Dehring stated, the actual number of positions to be reduced related to the plan is 75, many of which are internal support roles. Mr. Dehring stated that prevention of the closings will have a negative impact on NIPSCO's ability to operate its utility systems in a prudent and efficient manner.

Mr. Dehring described what is involved in emergency or "first" response activities, and indicated that the first responder will complete any repairs which he can perform safely and thus restore power to as many customers as possible. With respect to electric service outage, he said these activities include those required to make the area safe for the general public, for emergency response personnel, (e.g. fire, police) for other employees, and, for the first responder himself. Any relevant information is communicated with onsite public emergency response representatives. Damage is assessed and the cause of the electric outage determined. Assessment information and the need, if any, for additional employees or materials is

communicated to central operations. With respect to gas service outages, first response activities include the same "make safe" and communication elements as described for electric. The emergency event, normally a gas leak, is assessed and in most cases is repaired by the first responder. Additionally, first responders will continually monitor gas levels in nearby buildings and provide appropriate instructions to the occupants. If additional help is needed the first responder communicates such needs to central operations.

Mr. Dehring went on to discuss the emergency response coverage in LaPorte County. He noted that NIPSCO has established an Area Service Model within LaPorte County, which involved the placement of area electric servicemen or gas area servicemen in defined geographical areas to provide service during normal and non-business hours. These employees are required to live in the area where they have service responsibility. In contrast to the historical practice in which employees would be assigned to the LOA headquarters location and report to that location at the start of each work day, area servicemen are on call 24 hours a day, 6 days a week. For LaPorte County, Mr. Dehring said two area electric servicemen will be located in the northern third of the County and two will be located in the southern two-thirds of the County. Each group of two area servicemen alternate weekend days off, so that 7 day coverage is always provided. He also noted that if these employees cannot handle an emergency situation, the Company can call on any of the other area electric servicemen to aid in responding to the emergency. Mr. Dehring sponsored Exhibit TAD-4 which is a map of the proposed Valparaiso LOA reflecting the operating areas of the electric area servicemen.

Mr. Dehring contrasted the electric emergency response model in LaPorte County to the historical model that was in place at the time the complaint was filed in the case. Under the historical model, only one electric lineman was on standby for purposes of being the first responder to all emergency calls in all of LaPorte County. To be eligible for standby service, an employee must have been able to drive from their home to the headquarters building in LaPorte in 45 minutes or less. In these cases, when service events occur in a direction opposite from where the standby employee lives, travel times of over one hour to certain locations in the LOA could result. If a standby lineman lived 45 minutes southeast of the LaPorte operating headquarters and there was a service event in Michigan City, the travel time for the first responder would be greater than one hour. Mr. Dehring said that the Area Service Model was specifically designed to eliminate these extended travel scenarios.

Mr. Dehring testified that while the standby lineman was required to accept the emergency call, any additional linemen that may be required has no obligation to respond under the collective bargaining agreement. Mr. Dehring stated that the Company's experience was that there was only a 25% response rate for LaPorte County which was consistent with Company-wide acceptance of overtime. According to Mr. Dehring, the low response rate to overtime callouts, along with NIPSCO's desire to improve response times, was a major factor in its decision to expand the Area Service Model through NIPSCO's entire electric and gas service territory. Mr. Dehring noted that he believes the Area Service Model improves response times as four first responders live in small service territories and must respond to electric emergency calls.

Mr. Dehring went on to testify regarding the situation with gas operations in LaPorte County. He stated that prior to the development of the remotely located area gas servicemen, NIPSCO's gas operations were similarly affected by emergency response issues vis-a vis the collective bargaining provisions. He said that NIPSCO deployed its area gas servicemen in LaPorte County by dividing LaPorte County into three areas with two area gas servicemen located in each area. He noted that previously there was only one standby gas serviceman for all of LaPorte County. Consistent with its experience with electric service emergencies, when additional help was necessary, the Company was required to go through the overtime callout list in order to find an employee to respond to an emergency situation. Overtime acceptance for the headquarter-based gas servicemen in LaPorte County was at a level similar to that of headquarter-based electric linemen.

Mr. Dehring went on to discuss the implementation of the area service model in Lake County and sponsored Exhibit TAD-8 which showed the proposed gas and electric service areas for the new proposed Gary LOA. Mr. Dehring testified that electric operations in this area have historically been a combination of four to five shift and/or standby linemen servicing emergency calls in Lake County. In the event that additional help is necessary the Company would go through the overtime callout list in an effort to find linemen to respond to the emergency calls. Under the Area Service Model, NIPSCO will have 10 area electric servicemen located throughout Lake County. The Company plans on having area servicemen located near the Hammond, East Chicago, Crown Point, Merrillville, Lowell and Portage communities. Each of these area servicemen will be on call 24 hours a day, 6 days a week. Mr. Dehring testified that gas service calls in Lake County will be responded to in a similar manner. Under the historical model, there were four to five first gas responders required to respond to gas emergencies. Once the area's gas servicemen are deployed, NIPSCO will have 14 area gas servicemen strategically located throughout the proposed Gary LOA. Additionally, NIPSCO will serve the City of Gary with LOA headquarters-based gas servicemen working 24 hour shift coverage.

Mr. Dehring testified that the Company's experience in using remotely located area servicemen over the past two years has resulted in a significant improvement in such service. He sponsored Exhibit TAD-9 which shows the improvement in fulfilling pre-established customer service appointments. He said that this exhibit shows that the appointments improved a net 6 percentage points for the former Goshen and Warsaw LOAs after they were consolidated into a single LOA and the area servicemen were deployed in the new LOA. In Exhibit TAD-10, Mr. Dehring compared the weekend gas leak response times in the LaPorte LOA to the weekend gas leak response time in the Crown Point LOA for the years 2001 and 2002. He said Crown Point LOA did not have the remotely located gas area servicemen until June of 2002 while the LaPorte LOA had them in place for the entire period. Mr. Dehring testified that this exhibit shows the average weekend gas leak response time improved by 21% once the area gas servicemen were deployed in Crown Point and approached the same level of response experienced for the entire two year period in LaPorte. He said that this faster response time is directly attributed to the fact that NIPSCO has more gas personnel on call, living closer to the potential emergency and dispatched directly from their residence in emergency situations.

Mr. Dehring testified that the faster response times associated with the Area Service Model have also resulted in faster repair times. Mr. Dehring sponsored Exhibit TAD-11 which

utilized 2001 Company data regarding gas leaks, and stated that 94% of all gas leaks to which NIPSCO responds are of the type which can be repaired by the area servicemen without additional help. Thus, the area servicemen as emergency responders can complete the repairs on the vast majority of gas leak calls, and therefore, the faster response times translate into shorter repair times as well. Mr. Dehring indicates that this same result is indicated on Exhibit TAD-12 which addresses electric outages. As set forth on this Exhibit, in the period from March 1, 2001 to March 31, 2002, only 4% of electric outages involved damage to a pole which would typically require the assistance of additional linemen and materials. According to Mr. Dehring, the vast majority of electric outages can be repaired by the area electric serviceman working alone with materials he has on his truck.

Mr. Dehring sponsored Exhibit TAD-13, and indicated that the exhibit demonstrates that 88% of the third party gas main damage occurs Monday through Friday prior to 8:00 P.M. He stated that had NIPSCO been able to implement its Area Service Model in 2002, NIPSCO would have had an afternoon gas distribution schedule for routine work in LaPorte County. This crew would have been working in the field and able to immediately respond to gas main damage through 8:00 P.M. Without consolidation, Mr. Dehring noted that the smaller staff in the LaPorte and Valparaiso LOAs did not allow the additional flexibility of scheduling this late afternoon shift.

Mr. Dehring testified that he does not believe that LOA boundaries come into play in any significant way for major storm management. The allocation and deployment of electric employees during a major storm outage is controlled and dictated by NIPSCO's central command center in Merrillville. In the case of a major storm the electric area servicemen or standby linemen are first dispatched to assess the damage to the extent they can and make the area safe for the employees and the public. Additionally, LOA linemen are dispatched as needed. If the number of LOA linemen and electric area servicemen dispatched is not sufficient to provide expeditious storm damage restoration, NIPSCO will then dispatch its mobile construction crews to the damaged area as needed. If necessary, the Company will also engage line contractors and deploy them to the damage area. Finally, if sufficient crews are not available, the Company will call upon neighboring utilities for assistance and then deploy these crews. In his opinion, the LOA boundaries have no relevance to the Company when it comes to major storm management.

Mr. Dehring testified that many emergency response materials are carried on the electric and gas servicemen's trucks and that the Company's current deployment of personnel to the local service areas includes the remote location of materials and supplies in the Company's facilities throughout each LOA. According to Mr. Dehring, this was done in an effort to provide ready access to materials and supplies compared to the historical structure where the materials and supplies were kept only in the operating headquarter building of the LOA. Mr. Dehring said that the Company has designated the remote material locations as either primary or secondary sites. Primary sites will have the most commonly used poles and transformers in addition to equipment that employees can use to replenish supplies on their trucks during emergency situations. Additional poles or equipment can be delivered from NIPSCO's central storage facility in Valparaiso in the same manner as is currently done. Mr. Dehring said secondary sites will have commonly used materials and will serve as material delivery depots for planned work. As materials and supplies at primary and secondary sites are used, they will be replenished by the

central storeroom facility in Valparaiso. It will be the responsibility of the area servicemen to fax to the central storeroom a list of the items that have been used and central stores will then replace these items at each site. Mr. Dehring sponsored Exhibit TAD-15 which he indicates sets forth the electric materials which have been and will be kept in LOA storerooms, along with a list of materials to be maintained at primary remote material sites and a list of materials that will be maintained on area servicemen trucks. Exhibit TAD-16 sets forth the same information for gas materials. Mr. Dehring noted that the materials at the remote storage sites will be available to all operating personnel.

Upon cross-examination at the Preliminary Hearing, Mr. Dehring identified an email from then president and CEO of NIPSCO Barrett Hatches, which described Operation Excellence as a disciplined, data-driven process that takes into account best practices from across NiSource LDCs and the utility industry. He admitted that NIPSCO conducted no studies to determine where it stood within the utility industry in terms of reputation, customer service and satisfaction. On cross-examination by the OUCC, he acknowledged that NIPSCO was not considering any performance benchmarking or improvement programs other than the Area Service Model at the time of the Preliminary Hearing. He further stated that NIPSCO does its own customer service benchmarking with an independent party called Wilkerson & Associates which measures customer satisfaction with a service experience immediately following a service experience. Mr. Dehring could not recall the names of any other benchmarking efforts in which NIPSCO participated. He confirmed that NIPSCO had no other utility study or example supporting the closure of the facilities as "best industry practices" and indicated that NIPSCO retained no outside expert to support its position in this matter. Mr. Dehring confirmed that the estimated savings from NIPSCO's closing of facilities was slightly over \$7 million.

Finally, Mr. Dehring discussed the proposed Electric Service Reliability Incentive Ratemaking Mechanism ("ESRIM") provided for in the Settlement Agreement in Cause No. 41746. He identified several meetings that had taken place with personnel from the OUCC, the Commission Investigatory Staff, the Industrial Customers and the USWA regarding the ESRIM. Mr. Dehring opined that the ESRIM will provide a basis for evaluating the level of customer service provided by NIPSCO following the implementation of the Area Service Model and the LOA consolidations, and will impose rewards and penalties depending upon whether customer service improves or worsens.

Mr. Richard Brindley. Mr. Brindley, a Supervisor of Construction and Maintenance in the Goshen LOA, presented testimony in which he described the Company's experience after the Warsaw and Goshen LOAs were consolidated as a result of the electric and gas area service model being implemented in the Warsaw and Goshen LOAs. The consolidated LOAs are referred to as the Goshen LOA. He said that the consolidation of the two LOAs was implemented in June, 1999, concurrently with the implementation of the Area Service Model. He said that the Area Service Model made the consolidation possible by increasing the number of first responders in the field. Mr. Brindley stated that as a result of consolidation, the Company no longer needed the local operating headquarters building in Warsaw and that facility was closed. He stated that the Company utilized part of the Warsaw substation as a remote primary storage site for certain supplies such as poles and transformers for electric area servicemen who

work in the area near Warsaw. He said that the primary storage site has since been relocated to a new site.

Mr. Brindley described the manner in which area servicemen obtain equipment and supplies that are needed in the performance of the work. First, he noted that each area serviceman carries some materials and supplies on his or her truck. These are the materials most used by the serviceman. Second, each serviceman can utilize remote material storage locations where the materials commonly required by the electric and gas area servicemen are stored. Furthermore, each of these servicemen normally visit the Goshen Operating Headquarters at least once a week at which time they can replenish those supplies on the truck if necessary. He said that if supplies are taken from the remote storage site it will be the area serviceman's responsibility to make sure they are replaced or that he or she informs central storeroom that materials need to be replenished.

Mr. Brindley stated that the Company divided the consolidated Goshen LOA into five separate electric service areas. These areas are Claypool, Middlebury, Wakarusa, Millersburg, and Leesburg. In each of the five areas NIPSCO has deployed one electric area serviceman. The Goshen LOA was also divided into four gas service areas and each was assigned two gas area servicemen to serve NIPSCO's customers. Mr. Brindley stated that the Goshen LOA was divided into these service areas with the objective that the area servicemen would have no more than 25 minutes to drive anywhere within their area service territory from their homes. This criteria was established to enable NIPSCO to reduce the response time in emergency or non-business hour situations. The number of customers within the service area was also factored into the geographical configuration. Mr. Brindley sponsored Exhibit RLB-2 and 3 which show the gas service areas and the electric service areas respectively in the consolidated Goshen LOA. Finally, he stated that two gas area servicemen were assigned to each area and only one electric serviceman was assigned to each area because the workloads are different for the gas and electric service positions.

In his testimony, Mr. Brindley described a situation prior to consolidation and the problems that were encountered in responding to emergency calls or non-business hour calls in the Goshen and Warsaw LOAs. He noted that, under the collective bargaining unit contract, and the historical model that was in place prior to the Area Service Model, the Company would have one electric lineman on standby 24 hours a day in each LOA. That lineman was required to live within 45 minutes of the operating headquarters, either in Goshen or Warsaw. Therefore, if there was an interruption incident 20 minutes away from the operating headquarters in the opposite direction of the lineman's residence, an hour could lapse before a first responder arrived. In addition, if there was a situation such as a downed pole in which the standby lineman required further assistance, the Company was required to go to the overtime callout list to obtain the required assistance. Mr. Brindley said that the Goshen/Warsaw LOAs acceptance rates for overtime callouts was similar to that described by Mr. Dehring. He said that as a result of this low overtime request response rate, there were many cases in which the Company had to go the construction department callout list for additional help or use a supervisor to assist in restoration, which according to Mr. Brindley, delayed service restoration.

In contrast, Mr. Brindley stated that under the Area Service Model, for the consolidated LOA, NIPSCO has five, soon to be six, first responders compared to two first responders under the old system. Moreover, these first responders can call on other area servicemen for assistance, thereby eliminating the need to resort to the overtime callout list. He stated under the Area Service Model, NIPSCO now has an electric and gas area serviceman located in North Elkhart County. According to Mr. Brindley, this addresses a service issue that existed prior to implementation of the Area Service Model as most electric linemen lived in Kosciusko County, which presented North Elkhart County with longer response times than under the current model.

Mr. Brindley stated that, in his opinion, the Area Service Model has improved the Company's emergency response time in his area of operation. Mr. Brindley testified that first responder response time has been reduced in almost all cases enabling the Company to more rapidly restore service or secure the location of an interruption in a manner that protects all employees and the public until further assistance arrives. It is also his opinion that under the Area Service Model that area servicemen have better knowledge of emergency personnel, the location of critical facilities or other specific local conditions within their respective service territories. In his opinion, this enhanced knowledge reduces restoration time. While Mr. Brindley conceded that there were situations where a first responder could not completely restore a service interruption, he indicated that in the majority of the situations on the electric side, a first responder can correct the situation without any further assistance.

Mr. Brindley stated that NIPSCO has made every effort to ensure that local officials are familiar with the area servicemen who service their territory. During the initial year after Goshen and Warsaw LOAs were consolidated, Mr. Brindley stated that the Company took steps to introduce each area serviceman to city fire, water, sewer and safety officials in each of the municipalities and towns which were located within the serviceman's area of responsibility. The Company also implemented procedures whereby the area servicemen, along with Company supervisors, meet annually with the same officials to discuss service restoration issues and procedures and contact personnel. Mr. Brindley, who personally participated in these discussions, stated that the response by public officials has been excellent and that a number of municipalities have informed NIPSCO that they have noticed a significant improvement in service since the Area Service Model has been implemented and they support this model in the strongest terms.

Mr. Robert D. Roach. Mr. Roach, a Substation Operations Manager for NIPSCO, sponsored an Exhibit RDR-2 which is a list of the 14 remote sites, primary and secondary, which will be implemented as part of the Area Service Model. He said these sites are supplemented with the remaining operating headquarters within each LOA. Mr. Robert Roach described the process that NIPSCO used in selecting the remote storage sites for purposes of implementing the Area Service Model. He stated that generally the Company completed a Company-wide study of various substations and other Company sites for the purposes of determining suitable locations, and more importantly, for determining whether materials could be safely stored at these sites and retrieved by employees in a timely manner during the course of normal working procedures. He said substations determined to be either too small or too congested with overhead lines were removed from the list of possible remote sites. He said for each of the selected remote sites that were substations ample overhead line clearance was determined to ensure that such lines would

not be a safety hazard to NIPSCO's employees. He noted that in Kosciusko County none of the substations were determined to be suitable so the Company leased a secure facility in the City of Warsaw as a primary site. He said that through the process of implementing and supporting the Area Service Model, the Company wanted to strategically improve materials access beyond that previously provided by NIPSCO's headquarters building. As an example, he noted that NIPSCO added locations such as Thayer and Starke that geographically split the distance between the remaining Valparaiso and Monticello headquarters buildings.

Mr. Roach stated the Company reviewed 40 possible remote storage sites. These possible sites were based on reporting sites used by the Company's construction department for its electric line crews. He said that a company task force reviewed each of these sites for the purposes of determining a location that was consistent with the Area Service Model, i.e., that it could provide a location for remote storage of materials and supplies within one of the service areas that was to be established. These sites were also reviewed for spacing and clearances that were consistent with compliance with the National Electric Safety Code and all applicable federal and state OSHA regulations. Finally, the task force considered whether each site could be used as a primary or secondary site.

Mr. Roach testified that early in the task force review process, the Company decided to retain as a remote storage location in the eastern portion of NIPSCO's property which currently constitutes the Hammond operating headquarters. The Company determined that this portion of the Hammond operating headquarters would be a primary storage site. As a result, NIPSCO was able to eliminate the Highland and Sheffield substations as primary storage sites as they would have served similar operating areas. With respect to the Liberty Park Substation in Crown Point, Mr. Roach stated that the non-substation portion of the Company property was modified and secured to convert this site from a secondary to a primary site. This conversion eliminated the need for the St. John Substation as a storage site. Mr. Roach said that in two other locations, Thayer and LaGrange, the substations were too congested to be used as material sites so the Company used adjacent property and installed structures to utilize the locations as primary storage sites.

Mr. Roach noted that there were some potential remote storage sites in LaPorte County that were eliminated from the first list. He said that the Maple Substation was originally listed as a potential primary storage facility but it was viewed as a borderline candidate due to the limited space available. Accordingly the task force reviewed possible options and determined that retaining part of the LaPorte operating headquarters property would provide a better alternative as a primary storage site. As a result of this decision the Maple Substation was eliminated as a primary storage site and the 8th Street Substation was selected as a secondary site. Mr. Roach stated that the other primary storage site area in LaPorte County is the Trail Creek Substation which was on the original list of potential storage sites. The Trail Creek Substation, according to Mr. Roach was designated as a primary storage site because the Company believed it was important that it have a remote storage site in close proximity to the area servicemen serving the northern part of LaPorte County.

Mr. Michael D. Bechdol. Mr. Bechdol, a Field Manager, Construction & Maintenance for the LaPorte, Monticello, and Valparaiso Operating Areas submitted direct testimony on

behalf of NIPSCO in which he described the circumstances surrounding the service interruption of electric power to the LaPorte Hospital which occurred on January 31, 2002. Mr. Bechdol said that the outage was caused by severe weather conditions that existed throughout NIPSCO's service territory. He testified that in the early morning of January 31, 2002 there was a widespread ice storm in NIPSCO's service territory causing outages in Crown Point, Valparaiso, LaPorte, Plymouth, Angola and Goshen. As the day progressed, the conditions worsened. The City of LaPorte was severely impacted and that within the LaPorte LOA fifteen NIPSCO distribution circuits and four transmission circuits were interrupted causing outages to approximately 10,000 customers.

Mr. Bechdol explained that power is delivered to the Hospital through two sources. The primary source is the circuit called Circuit 1262 and the secondary or backup source is Circuit 1264. He said that all hospitals in NIPSCO's service territory have a primary and secondary circuit. Also many health care facilities such as large nursing homes and medical clinics are served by alternate electric circuits for reliability purposes. As is the case with the Hospital, Mr. Bechdol noted that many facilities have internal generators to supply electric power in the event service from alternate circuits is interrupted. He said that if a primary circuit is interrupted, the customer's internal switchgear immediately recognizes the interruption and automatically switches to the alternative feed. If both circuits are interrupted Mr. Bechdol stated that the customer's internal switchgear immediately senses both circuits are interrupted and automatically switches over to the internal generation resource if one has been installed. When service is restored, Mr. Bechdol said that the customer's switchgear will immediately switch over to the restored circuit and shut down the internal generation. If the restored circuit is the secondary feed, it will take service from the secondary feed until the primary feed is restored and will then automatically switch over to the primary feed.

Mr. Bechdol then described the impact of the ice storm to the electric feeds for the Hospital. Circuit 1264, the secondary feed, was out of service on three separate occasions on January 31, 2002. During these outages, service was maintained to the Hospital by the primary source, circuit 1262. The first outage on Circuit 1264 occurred early in the morning and service was restored at 7:11 A.M. After being online for a short period of time Circuit 1264 was again interrupted and service was again restored to that circuit at 9:28 A.M. Service was again interrupted to Circuit 1264 late in the morning of January 31, 2002. Upon each interruption Mr. Bechdol said a crew was immediately dispatched to make repairs. The third interruption was caused by tree damage that was so significant that NIPSCO was required to dispatch 4 linemen and 3 tree crews in order to restore service. He said that even though the Hospital was still adequately served by Circuit 1262 there was considerable effort to restore service on Circuit 1264, because it is the primary energy source for a number of traffic lights and businesses in the LaPorte downtown community. He also said the restoration of the secondary feed for the Hospital was a matter of high priority for NIPSCO even during the time that the Hospital was receiving uninterrupted service.

Mr. Bechdol said that service was completely interrupted to the Hospital with an outage on Circuit 1262 at approximately 3:45 P.M. because Circuit 1264 had not yet been restored to service after the third outage. The outage of both circuits caused the Hospital's internal generators to come on line. Based on an investigation by a line crew it appeared that the trees

broken by the weight of the ice had fallen and bounced on the lines and shorted the circuit. Mr. Bechdol said that Circuit 1262 was not damaged and the Company knew almost immediately that Circuit 1262 had been interrupted because its outage restoration computer system began receiving outage notices. According to Mr. Bechdol, a crew was immediately dispatched to patrol Circuit 1262.

Mr. Bechdol testified that at approximately 3:50, the crew working on Circuit 1264 was contacted and asked how long it would take to restore service. They indicated it would take 20-25 more minutes. With this indication, Mr. Bechdol testified that a substation electrician was directed to report to the substation and remain on standby in order to energize Circuit 1264 as soon as the crew cleared the circuit. He said that Circuit 1264 was energized at approximately 5:00 P.M. which brought the Hospital back in service. At approximately 6:00 P.M. Circuit 1262 was energized. Therefore, according to Mr. Bechdol, the Hospital was without electric service from NIPSCO for one hour and 15 minutes. Mr. Bechdol said that in spite of its best efforts the tree damage was so severe on Circuit 1264 that service could not be restored by the time the ice storm impacted 1262, and concluded that the consolidation of the LaPorte LOA will not impact the Company's ability to restore service to the Hospital in situations similar to that which occurred on January 31, 2002.

C. *Complainants' and Intervenors' Rebuttal Testimony.*

Mr. Jonathan Goble. Mr. Goble submitted rebuttal testimony in reply to the Direct Testimony of Michael Bechdol and Timothy Dehring. Mr. Goble disagreed with Mr. Bechdol's assertion that NIPSCO used its "best efforts" to restore the secondary source of power to the Hospital so that service would not be interrupted. NIPSCO did not adequately prepare for the storm damage, as demonstrated by Exhibits 1-4 sponsored by Mr. Goble, which show that despite clear warnings of a major winter storm, NIPSCO ignored those warnings and sent linemen to Kansas City immediately before the storm hit; NIPSCO then had to recall those linemen back to Indiana during the height of the storm.

Mr. Goble further indicated that NIPSCO failed to adequately communicate with the Hospital during the power outage on January 31, 2002. The Hospital lost all power for approximately 6 seconds at 3:45 p.m. that day before it began operating on its own internal backup generated power. NIPSCO had not advised the Hospital that one of the alternate power sources to the Hospital had been interrupted on three occasions during that day or that the Hospital was at risk of losing all external generated power. Prompt communication from NIPSCO during a power outage is critical to the Hospital. The internal generators provide only 50% of the Hospital's power needs when both external feeds from NIPSCO fail. If NIPSCO had given the Hospital any advance notice that either circuit had failed or provided some estimate as to when power would be restored, the Hospital would have held the day shift over to make certain that there were sufficient personnel to continue the oxygenation of its patients in the dark if the internal generation had failed for any reason.

Mr. Goble also disagreed with the suggestion that the January 31, 2002 outage was a one-time event that is unlikely to be repeated. On December 17, 2002, the Hospital again had both its primary and secondary sources of power from NIPSCO interrupted, which caused the

emergency generators to start. Although that interruption was brief and lasted less than ten minutes, the possibility of the Hospital losing both sources of external power is very real. Mr. Goble sponsored Exhibit 5, which is a report of the December 17, 2002 incident prepared by Don Yurkovich, the Hospital's Director of Plant Operations.

Mr. Goble also disagreed with Timothy Dehring's suggestion that the Electric Service Reliability Incentive Ratemaking Mechanism ("ESRIM") from NIPSCO's rate case settlement, if approved by the Commission, would address any concerns over NIPSCO's ability to provide adequate service. The Hospital's concern in providing health services to the public is with the life, health and safety of human beings. Any purported financial penalty imposed upon NIPSCO pursuant to the ESRIM (assuming it is ever approved) would be meaningless to people who suffer injury or death if NIPSCO is unable to restore power to the Hospital within a reasonable timeframe.

Mr. Goble also emphasized he believes that NIPSCO has failed to adequately address the problems that arose during the power outage on January 31, 2002. NIPSCO has not taken any actions to add additional personnel to ensure a prompt restoration of power or better communication during an outage, but has instead advised that it will close district maintenance facilities and reduce the number of electric linemen and gas repair staff in the LaPorte area. Power outages are literally a matter of life and death for the Hospital because they affect its ability to provide health services to the public. NIPSCO must be required to maintain sufficient crews, resources and equipment to immediately respond to power outages to the Hospital, and it must maintain sufficient staff so that it can communicate with the Hospital fully and promptly while service is restored. Mr. Goble observed that the events of January 31, 2002 demonstrate that NIPSCO has no safety margin with regard to its current staffing level, and it should not be permitted to reduce that staffing level further.

Mr. Stephen Eyrick. Mr. Eyrick, the Chief Probation Officer for the LaPorte Superior Court No. 4, submitted rebuttal testimony in response to the testimony of Timothy Dehring. Mr. Eyrick disagreed with Mr. Dehring's claim that the proposed closings will not hinder public safety.

Mr. Eyrick testified that his Department supervises an average of 600 offenders on probation at any given time. It has approximately 50 individuals on the Shield Electric Monitoring System either as a condition of bond or pretrial release. The system involves a device attached to the alleged or convicted offender's ankle which alerts Mr. Eyrick's office in the event the person leaves home. The victim also has a device that will set off an alert should the alleged or convicted offender approach the victim. For example, one individual on this system, after four months on probation, approached his victim at her place of employment; the alarm on the victim's Shield device alerted her that the offender was in the area, and she contacted Mr. Eyrick's office. The offender was taken into custody after a brief altercation. If the device had not been operational, the result most likely would have been different. Both systems are attached to a phone line and an AC power outlet. Although the systems have a battery backup, it is limited and once the battery is exhausted the system is rendered useless.

Individuals on the Shield Electric Monitoring System typically have been charged with offenses such as invasion of privacy, harassment, rape or other similar offenses. These individuals have demonstrated a serious threat to the victim, and if not monitored, to the public safety. Any proposal by NIPSCO that would increase the response time for restoring electric power would seriously jeopardize this system.

Mr. Rick Pinkerton. Mr. Pinkerton also provided rebuttal testimony to the Direct Testimony of Michael Bechdol, Richard Brindley and Timothy Dehring. Mr. Pinkerton disagreed with Mr. Brindley's assertion that the closing of the LaPorte LOA would have no impact on NIPSCO's ability to restore service to LaPorte Hospital in a situation such as the one that occurred on January 31, 2002. In spite of NIPSCO's plan to have servicemen living in LaPorte that can respond directly from their homes, witnesses in this proceeding (Mr. Dehring, Mr. Brindley, Mr. Essig and Mr. Sandy) all agreed that servicemen cannot handle all restoration work unassisted and that all required materials and equipment cannot and will not be kept on servicemen's trucks or at remote storage sites. It is doubtful that moving equipment, materials and linemen to the Valparaiso LOA would have no impact on NIPSCO's ability to respond to an outage affecting the LaPorte Hospital. If line crews originated from or had to travel to the LOAs at Valparaiso, South Bend or Gary rather than the LaPorte LOA, restoration times would probably be longer due to the additional travel required.

Mr. Pinkerton explained that a quicker initial damage assessment will not eliminate the need for the LaPorte LOA in situations such as the complete outage suffered by the LaPorte Hospital on January 31, 2002. Mr. Bechdol's testimony did not explain from where the crews were dispatched that day; what the travel times were; how many trips to the LOAs were necessary; or what the travel and restoration times would have been in the absence of the LaPorte LOA. Although line crews may be dispatched from any LOA in a major storm situation, closing the LaPorte LOA would eliminate the option of dispatching crews or obtaining equipment and materials from the closest LOA, which would result in increased travel time which will have a direct impact on restoration times. Further, closing LOA headquarters, consolidating LOAs and reducing the number of servicemen and linemen decreases the capability of a service delivery network, all else being equal, regardless of a customer's priority position; thus, even high priority customers such as hospitals will experience worse restoration performance on average. Improvements in first-responder abilities, such as expanding training of area servicemen to close substation breakers, creating home-based first responders and adding some additional material sites may improve reliability, but those changes are not dependent upon the closing of any facilities.

Mr. Pinkerton disagreed with Mr. Bechdol's assertion that the purported improvements in response time to emergency calls or non-business calls after the Goshen/Warsaw consolidation supports consolidation in this case. According to Mr. Pinkerton, the use of home-based first responders was merely a concurrent event with the closing of the Warsaw LOA. Mr. Bechdol's assertion that emergency response time has been excellent after the Goshen/Warsaw consolidation is supported only by comments about *first* responder response time. No mention is made regarding *second* responder response time. Closing LOA headquarters, combining LOAs and reducing field physical workers, from a logistics standpoint, will negatively impact second responder response times and overall restoration/repair time.

Mr. Pinkerton explained that NIPSCO's contention that the deployment of home based area servicemen and a supplemental supply scheme enables them to close five of their LOA headquarters might be convincing if NIPSCO provided only first responder services. Second responder capabilities and performance are dependent on, and limited by, the configuration and staffing of the LOAs. Although improvements in first responder response times achieved by the area servicemen model may improve overall response and restoration times, NIPSCO provided no information showing overall responsiveness metrics (first and second responders combined or repair times) for past, current or planned numbers and locations of service centers and field worker staffing levels. Further, based upon the J.D. Power and Associates customer satisfaction studies and data, it appears as though NIPSCO should be aiming to improve its overall service and not merely attempting to compensate for productivity or responsiveness gains by closing LOAs or reducing field resources.

Mr. Pinkerton discussed why second-responder response time or travel times matter even though, as Mr. Dehring testified, 94% of gas leak repairs in 2001 were performed by gas area servicemen unassisted. From Mr. Dehring's testimony, it is unclear how many of those repairs still required trips to or deliveries from an LOA of equipment or materials after the initial damage assessment. Moreover, Mr. Dehring's data in Exhibit TAD-11 indicates that 2,060 system gas leaks in 2001, or about six system leaks per day, were of the type that could not be fixed by the first responder. Increased travel time or fewer resources to respond to those leaks will delay repairs and increase the potential for harm to the public. Similarly, many electric outages cannot be handled alone by an area serviceman, such as those involving pole damage, distribution equipment damage or failure, downed conductors and underground faults or dig-ins.

Mr. Pinkerton disagreed with Mr. Dehring's assertion that LOAs are insignificant and have no relevance in major storm restoration efforts. As Mr. Pinkerton notes, Mr. Dehring's testimony addresses only the significance and relevance of LOA boundaries for major storm restoration efforts and not the significance or relevance of LOA buildings or staffing on those efforts. Although the central command center and resource sharing approach described by Mr. Dehring is common for electric utilities during major storm restoration, the central command center directing restoration efforts with 12 LOA headquarters rather than 7 has more options and capabilities for effectively dispatching crews and resources. Increase in travel time by those crews from or to LOAs lessens the time spent for on-site repair and restoration work, thereby lessening NIPSCO's storm restoration capabilities.

Mr. Pinkerton agreed with Mr. Dehring that the efficient deployment of resources to the job site is key to providing safe and reliable service, but disagrees with Mr. Dehring's suggestion that buildings play no part in providing safe and reliable customer service. Buildings, road networks, material inventory, dispatchers, garages, scheduling software and communication equipment themselves may not provide safe and reliable service, but they are all key components of service delivery networks that provide the foundation and means for the efficient deployment of resources to the job site.

In Mr. Pinkerton's opinion, closing the LOA headquarters and combining LOAs will increase travel time for second-responders, for first responders that must make trips to the LOA

headquarters for material and equipment and for those that deliver required equipment and/or material to a trouble location, both during normal operations and during storms. Increased travel time places public safety in jeopardy by resulting in delays in making trouble locations safe, rectifying problems or restoring power to emergency, medical and public safety facilities and households on life-support equipment. Even where local police and fire authorities can evacuate an area that poses a danger to the public, prolonged delays that require those fire and police authorities to “baby-sit” a potentially dangerous situation take those community personnel away from performing other functions and effectively shift costs from the local utility to the local authorities and communities.

Mr. Pinkerton agreed with Mr. Dehring that an Electric Service Reliability Incentive Ratemaking Mechanism (“ESRIM”) could provide the necessary rewards, penalties, and evaluation criteria to ensure the proper level of customer service provided by NIPSCO. He understood, however, that such ESRIM is not yet in place and expressed concern that allowing NIPSCO to close five LOA headquarters, combining LOA’s to form larger LOAs and cutting staff prior to the establishment of any performance benchmarks may result in benchmarks based on a much weaker delivery system.

In Mr. Pinkerton’s expert opinion, closing 5 of 12 LOA headquarters and reducing staff will not help NIPSCO achieve that objective because those actions will have a negative impact on response times and responsiveness capabilities. Although it is possible to close facilities and reduce staff and equipment and thereby save costs, cost-tradeoffs from those actions, such as increased travel costs, could actually cause the total costs to be higher after the facilities are closed. It is possible and probable that NIPSCO can reduce total costs if it does not plan to provide, or in practice does not provide, the same amount of construction, maintenance and restoration work as well as the same level of responsiveness after closing the five LOA headquarters.

Mr. Robert Wise. Mr. Wise was an electric serviceman and worked in that capacity for approximately 6 to 7 months. Mr. Wise explained that he opted to bid out of that job because it seriously jeopardized his home life. Mr. Wise said that the job disturbed his sleep, interfered with other activities and generally made it difficult for him to conduct a private life. Pursuant to the job requirements, Mr. Wise had to work 16 continuous hours before he was entitled to eight hours of sleep. If he did not work 16 continuous hours it was possible that he could be called out again to respond, meaning there were days he might have to work more than 16 hours.

Mr. Wise also testified that due to the inability of the company to fill certain positions, he was required to cover other areas besides his own. This required him to travel long distances to areas which were unknown to him. He described it as a huge district and he indicated that if the LOA were closed it would become even larger. Mr. Wise described the job of an electric serviceman as a “revolving door position.” He doubted that NIPSCO would ever be able to fill all of the positions and keep them filled.

Mr. Wise confirmed that outlying servicemen could not make every situation safe and in those instances where they could not, they would have to wait for back up assistance and/or equipment from the LOA. He described one scene where he set up red traffic cones to protect

the area around a line but an upset customer walked right through the cones. Mr. Wise also stated the fact that if the LOA were closed and backup assistance needed to come from another LOA, it would take longer to handle the dangerous situation. Mr. Wise confirmed that outlying servicemen reported to the LOA every morning and every evening at the end of their shift.

Mr. George Tessman. Mr. Tessman testified that NIPSCO was operating on an incorrect premise when it concluded that the effectiveness of outlying servicemen is based on the fact that as they were closer to where the problems might arise, they could address those problems more quickly and provide more efficient service. According to Mr. Tessman, it didn't work that way. He used himself as an example. He lived in Hammond where there are 4 service areas. He lived in one of them. The company was unable to fill the other 3. Accordingly, he was required to handle the entire district single-handedly which totally defeated the purpose of the Area Service Model.

Mr. Tessman went on to say that he was specifically hired into the job of electric serviceman. He indicated, however, that the job was never accurately described to him. He felt he had been lied to and that if he had been told the truth about the job's requirements, he would have never accepted it. In describing the difficulty of the job, Mr. Tessman quoted his superior as saying "I know you have a family but NIPSCO comes first. For 24 hours a day, 6 days a week you are our whipping boy." The job caused Mr. Tessman to have to neglect his family. No one with any kind of a life at all could live up to the responsibilities of that job. His opinion was that it would be difficult for the company to hire people to fill those positions and it would be impossible for them to keep those people. Mr. Tessman also advised that he typically required some form of backup either in people or equipment at a majority of the jobs he performed. He indicated that many of the calls that he received weren't NIPSCO's responsibility but of the ones that were, a large percentage required him to call for backup. If the facility is shut down in Hammond, he would have to wait an even longer period for the backup assistance to arrive. He also indicated that the LOA housed the "big board," the master board of circuitry to which servicemen refer to know what is happening with the 12 kV distribution system. In his estimation, shutting down the Hammond LOA could seriously jeopardize customers.

Mr. Mark Smith. Mark Smith testified in response to NIPSCO's testimony that its ability to provide reasonably adequate service will not be impacted by its Consolidation Plan. Mr. Smith was a substation electrician and has been employed with NIPSCO for 26 years. He was involved in an incident on October 14, 2003 which he believes reveals the serious inadequacies of NIPSCO's Consolidation Model.

Mr. Smith explained that shortly after LaPorte County obtained the order preventing NIPSCO from closing down its headquarters facilities, NIPSCO discovered that the Order did not extend to closures of various substations. At the time of the Order, Mr. Smith was assigned to the Liberty Park substation in Crown Point. NIPSCO closed that facility and reassigned the personnel at that substation to the substation in Valparaiso. The substation electricians were placed in charge of a very large area which extended from a point east of Valparaiso to Dyer and as far south as State Road 10. This very large area includes places in counties south of Lake County such as Thayer, Sneider and Roselawn.

On October 14, 2003, while he was in Valparaiso, Mr. Smith received a call from the dispatcher to tend to an outage at the Liberty Park Substation in Crown Point. Mr. Smith explained that the dispatcher gave him the location but was unable to identify the exact nature of the problem. Due to an ongoing storm, hazardous roads, non-functioning traffic lights, and traffic congestion, it took Mr. Smith 35 to 40 minutes to arrive at the scene of the outage. Upon arrival, he discovered that the fire department was waiting for him and were quite upset that it had taken him so long to arrive. The location of the fire was within one hundred feet of the Liberty Park substation where Mr. Smith was formerly assigned. Had he still been assigned there, it would have taken much less time to arrive on the scene.

Mr. Smith testified that there were two electric servicemen on the scene when he arrived. He explained that the outlying servicemen are supposed to arrive at the scene of the problem quickly, make the scene safe and rectify the problem to the best of their ability. They did not do this as they had no idea what the problem was and were unable to make the scene safe.

Mr. Smith indicated that he was able to rectify the problem for the most part when he arrived, but he did not have all the necessary equipment to completely rectify the problem. He had to call the Valparaiso substation for additional equipment, specifically, hold cards, which are required by NIPSCO and OSHA to switch out a piece of equipment, but the apprentice who was sent to supply Mr. Smith with the equipment took almost a full hour to arrive. Mr. Smith had hold cards on his truck, probably 40 of them, but that was not enough.

Mr. Smith explained that this series of events resulted in a power outage that lasted more than two hours. Mr. Smith discussed the seriousness of the outage, which resulted in the loss by St. Anthony's Hospital of both circuits and left it operating on backup generators used only for emergency services. All other services at the hospital were put in abeyance. Methodist Hospital lost one of its circuits and relied on its secondary source. If a car had crashed into a pole, Methodist Hospital could have lost its secondary source as well. Additionally, traffic lights were out creating a serious hazard on the roadways, and several area schools shut down for the entire day.

If he had still been assigned to the Liberty Park substation, which was a fully stocked department with additional personnel assigned to it, he could have rectified the problem within ½ hour. In Mr. Smith's opinion, windshield time caused the outages to last as long as they did that day. Mr. Smith's actions had to be coordinated with 4 other substations, which required substation electricians to be dispatched from the east portion of Valparaiso to substations in Lowell, Orchard Grove, Cedar Lake and Hanover. Some of the other electricians had to drive even farther than Mr. Smith, and he had to wait for them to arrive at their substations. Mr. Smith indicated that there was an undue delay for him to arrive at the scene which meant the outage persisted for longer than necessary and put the Crown Point community at risk. The outlying servicemen were unable to address the problem or make the situation safe, and further delay was created by the need for someone to come from Valparaiso to bring Mr. Smith the necessary equipment. Mr. Smith testified that Robert Roach was very complimentary of his arrival time that day and did not criticize any of his conduct until Mr. Roach scheduled a meeting with Mr. Smith after he provided testimony in this matter.

Mr. Richard Essig. Richard Essig submitted rebuttal testimony in response to the testimony of Richard Brindley, and disagreed with Mr. Brindley's assertion that the response by municipal or town officials to the Area Service Model has been excellent. Mr. Essig testified that he is aware of at least one instance, namely a letter sent to the Commission by the Sheriff of Kosciusko County (Exhibit A) which expresses dissatisfaction with the Model.

Mr. Essig described the difficulty the company has endured in attempting to fill the outlying servicemen positions. He indicated that he was close to the employees working in these positions and strongly detected the difficulty and hardship the position placed upon these employees. According to Mr. Essig, it is for that reason that the company cannot fill all the positions nor can it keep the people who are presently serving in those positions. While NIPSCO challenged the motivation of various employees in giving their testimony and asserted that Mr. Essig was testifying because he suffered financially as a result of the Area Service Model, Mr. Essig testified that his only motivation in testifying in this Cause was due to his concern over the health and safety of both NIPSCO customers as well as its employees.

Mr. Mike Sandy. Mr. Sandy submitted rebuttal testimony in response to the testimony of Richard Brindley and Timothy Dehring and testified that he believes that Mr. Brindley and Mr. Dehring are minimizing a very important issue. They both feel that replacing facilities with first responders more than compensates for the loss of the facilities, pointing out that first responders can handle 94% of all gas leaks and that only 4% of electric outages involve pole damage, which typically requires the assistance of additional linemen and materials.

Mr. Sandy emphasized that just because the statistics for calamitous events may be small, it does not make them less dangerous. There are situations where people suffer tremendous property damage and loss of life, such as shown in Exhibit 1 to his Rebuttal Testimony, which describes a natural gas leak which caused an explosion destroying a home in Portage (and which identifies four other homes that have been destroyed by gas explosions in Northwest Indiana in recent years). This article showed examples of what can occur in a gas leak. Mr. Sandy indicated that there are situations where the first responder is helpless because he doesn't have the appropriate equipment. As a result of the closings, first responders will have to wait an extended period of time to obtain the right people and equipment to help avoid or minimize the damage. In Mr. Sandy's opinion, this proceeding is about the less likely situations which create greater devastation.

D. *NIPSCO's Complaint Rebuttal Testimony.*

Mr. Dehring. NIPSCO presented the rebuttal testimony of Mr. Dehring in response to the testimonies filed by Mr. Sandy, Mr. Essig and Mr. Pinkerton on behalf of LaPorte County and Michigan City. According to Mr. Dehring, the headquarter buildings identified to be closed are largely vacant most of the day and provide little customer service or emergency response value other than to serve as a gathering place for field employees at the beginning and end of the work shift. Mr. Dehring cited as an example the LaPorte operating headquarters. He stated that if one were to enter this 18,200 square foot building at 10:30 a.m. one would find 5 clerical persons, 1 gas supervisor and a storeroom stock person all located on the first floor. The second floor of the LaPorte operating headquarters building is entirely vacant. He also stated that in the

LaPorte garage area one would find 2 garage mechanics in a building of 4,866 square feet. He noted that most vehicle repairs are done in off hours when field employees are not using the vehicles. In his opinion the garages are not critical customer service facilities. He also stated that supervision and clerical activities, which take place during a normal business day, can be performed from other locations. The Company's electric and gas plant records and maps are automated and available electronically from any location. Other customer service administrative functions are performed through computer systems which are available from any location as well. Mr. Dehring also indicated that all daily and emergency work is dispatched centrally from Merrillville and is not dependent on the LOA headquarters building.

Mr. Dehring does not believe that LOA buildings are necessary for material and equipment storage. He stated that the Company's plan to create remote material sites to supplement the remaining headquarters and to support the area servicemen will be more than sufficient to compensate for the closing of the designated headquarters. He stated that each primary site which does not have an existing facility will be equipped with two storage containers which are the size of a semi-trailer and will further be outfitted with lights and shelves. He said that emergency response materials normally stored inside an LOA building will be stored inside the container and insulated from the weather. Poles and transformers will be stored outside, just as they are currently at LOA headquarter buildings. Mr. Dehring disagreed with Mr. Sandy's allegation that storing vehicles outside, exposed to the elements, will make them unreliable. He noted that NIPSCO's construction department, much like most outside contractors, stores most of its equipment and trucks outside at a jobsite or substation, and that the Company has operated in this fashion for well over 50 years without serious consequence of vehicle malfunctions.

Mr. Dehring noted that in expressing his concern for the Company's Area Service Model plan, Mr. Sandy cited an incident in Logansport where three homes blew up. Mr. Dehring said he was not familiar with this incident and that NIPSCO's operational records make no mention of such an incident. In Mr. Dehring's opinion, Mr. Sandy was attempting to blame NIPSCO for an incident that did not occur within its service territory. During the hearing in this matter Mr. Sandy agreed with Mr. Dehring's statement that the incident of which he spoke did not occur in NIPSCO's gas service territory.

Mr. Dehring responded to Mr. Essig's criticism that the remote storage sites will not be adequate because of the large size and volumes of materials that will be needed. Mr. Dehring stated that the remote storage site concept focuses on routinely needed materials used by area servicemen and by crews who respond to the majority of gas dig-ins and damaged poles and transformers. He said that typically the large size items referred to by Mr. Essig are stored at NIPSCO's central storage facility in Valparaiso as they require special handling equipment for storage and retrieval. He said these items are usually a part of the transmission system where problems can be isolated, sites made safe, and service restored. He said that these large items will be stored under the Area Service Model in the same manner as they are stored today.

In response to Mr. Sandy's claim that employees are working 80 hour work weeks, Mr. Dehring testified that he was not aware of any employee working 80 hour work weeks. Mr. Dehring researched this allegation with the leadership of NIPSCO's central operations

department, where all daily and emergency response work is dispatched, and they were not aware of any 80 hour work weeks. However, Mr. Dehring did state that while he was unable to find records of anyone working an 80 hour week, he could envision an employee being *compensated* for 80 hours based on the premium pay provisions of the collective bargaining agreement. He also stated that he expected there were electric linemen who have worked 80 hours during an outage, such as the ice storm of March, 1998, but that he strongly disagreed with the assertion that an 80 hour work week is somehow the norm at NIPSCO.

Mr. Dehring then responded to Mr. Essig's testimony and reiterated that his direct testimony includes statistical evidence that 94% of gas leak calls can be repaired by the area servicemen. Also, the statistical evidence demonstrates that only 4% of electric outages involve pole damage. In short, according to Mr. Dehring, the vast majority of outages can be repaired by one person. Mr. Dehring stated that even when this is not possible, the first responder to an electric outage or incident can make the situation safe and often can restore power to most customers through circuit isolation and switching prior to the repairs being completed. Mr. Dehring testified that the trips made by the area servicemen normally originate and end in their assigned territory. The territories are designed to result in much shorter travel times than those from the headquarters building.

Mr. Dehring noted that during the normal workday employees are not at the headquarters, but in the field where they can be called upon to respond to emergencies. Mr. Dehring noted that after hour response by LOA personnel has historically been very poor. This response rate has frequently required NIPSCO's remote construction department employees to respond to repair situations after LOA employees have chosen not to respond. Mr. Dehring said that for the LaPorte LOA in 2002, NIPSCO's records reflect that one-third of the crew-based construction and maintenance emergency calls were handled by a workforce other than the headquarter-based LOA employees because of their failure to respond. He noted that that LOA based employee response rate to overtime callout was a major contributing factor in the Company's decision to expand the Area Service Model company-wide.

Mr. Dehring then responded to Mr. Pinkerton's testimony wherein Mr. Pinkerton suggested that the travel times for service events will increase, and the facility savings are offset at some undetermined level by increased costs of travel. In attempting to place his testimony in the appropriate context, Mr. Dehring noted that Mr. Pinkerton sometimes refers to travel times, and on other occasions to response times. NIPSCO characterizes response time as including the time from when a customer reports a problem to when a service employee arrives on site. This would include the time to dispatch or the time to secure the appropriate individuals to respond, the time for that individual to complete any current task underway and the time to travel to the service event.

Mr. Dehring stated that NIPSCO adopted the Area Service Model in order to place the Company's gas and electric first responders in smaller geographic areas where they reside and provide service. The Model was specifically designed to make more people available to respond to emergencies and to allow concurrent rather than sequential responses to emergencies and reduce travel time. Mr. Dehring believes that when a service employee must request crew assistance the gains achieved through the Area Service Model allow for a much quicker dispatch

of the assisting crew providing the crew lead time which previously did not exist. Mr. Dehring stated that the Company plans to leverage an expanded use of the construction department for planned construction and maintenance work activities because these employees have the contractual ability to report directly to the jobsite or staging areas, once again reducing travel time which was previously attributable to headquarter-based employees.

Mr. Dehring then responded to Mr. Pinkerton's suggestion that sufficient analysis was not performed on the Area Service Model before implementation. Mr. Dehring stated the Area Service Model had been in development for over two years and that the Company had experienced its success in delivering good customer service and response. He said that the Company was confident that the elements linked to territorial residential requirements and response obligations would serve as a key enabler to consolidation. He noted that Mr. Pinkerton proposed a service metric defined as "percent of work demand within 30 minute travel times from the LDC" as an appropriate response in his optimization model. Mr. Dehring stated that NIPSCO's own criteria in developing area service territories was a 25 minutes travel maximum. This would yield a 100% response for this service metric in Mr. Pinkerton's model. Mr. Dehring noted that the Company also considered the capabilities of the area servicemen with respect to the type of service events they would be required to address. He said the Company also understood the need to implement remote equipment and material sites to support the remote placement of personnel. Mr. Dehring stated that the operations senior management team that implemented the Area Service Model Company-wide considered all aspects of the plan. He stated the senior management team had over 100 years of combined experience with NIPSCO, and was highly qualified to address the elements of the plan.

Mr. Roach. Mr. Roach also presented rebuttal testimony (Exhibit 6) in response to Mr. Sandy's allegations that remote material sites will be inadequate to store all equipment needed and that the equipment stored outside will be damaged by the elements. He also said he was responding to Mr. Essig's testimony that it is not possible to properly equip a remote storage site because of the need for large size items and the large volume of items required in an emergency response. Mr. Roach disagreed with the statements of Mr. Sandy and Mr. Essig. He stated that to the extent Mr. Sandy was suggesting that all inventory at remote material sites will be exposed to the elements, he is simply wrong. He said that the items that are currently stored inside a building will continue to be stored inside. He said each remote material site will utilize either an existing building or containers the size of a semi-trailer for the purpose of storing materials that are currently stored in an environment that protects the inventory from the elements. To the extent large items such as poles and transformers are maintained at remote material sites, they will be stored outdoors, which is no different than the way they have been stored for decades at NIPSCO's operating headquarters. He stated that the manner in which the inventory will be stored at remote sites will continue as it has for decades.

Mr. Roach sponsored Exhibit RDR-5 which consists of aerial photographs of the remote material sites of Hammond operating headquarters, Liberty Park Substation, Stark Substation, Thayer Substation and Trail Creek Substation. In Mr. Roach's opinion, these photographs demonstrated that adequate facilities will be available to store required materials out of the elements and that adequate space will exist for equipment that is currently stored outside. He

also noted that the spacing is such that all materials which will be stored in these areas can be removed in a safe and efficient manner.

Mr. Bechdol. Mr. Bechdol testified in response to the testimony of Ms. Debra Chubb regarding a gas service interruption that occurred in Michigan City on August 7, 2002. Mr. Bechdol stated an investigation revealed that on the afternoon of August 7, 2002 a crew from the Michigan City water department was on a site near the address of Imagination Station, a preschool facility, to repair a water line. There was also onsite an employee of SM&P, the contractor used by NIPSCO for line locates, who had difficulty in locating the gas line in the area. According to Mr. Bechdol, for some reason, the excavation began before the gas line was marked and, as a result, a NIPSCO 2" gas line was ruptured.

Mr. Bechdol stated that NIPSCO was notified of the interruption at 3:55 p.m. by the Michigan City Police Department and that immediate contact was made with the Michigan City gas area serviceman. He stated that this serviceman, along with another gas area serviceman who was in the immediate area, responded to the emergency call and were on the scene at 4:05 p.m. The two area servicemen surveyed the scene and immediately called for a gas street crew to be assembled and dispatched to the scene in order to complete repairs. Mr. Bechdol stated that while the crew was being assembled, the gas serviceman remained on the scene and took natural gas readings to ensure that there was no danger to the public in the immediate area. Mr. Bechdol said that the gas street crew was enroute to the scene at 4:55 p.m. and at 5:58 p.m. NIPSCO's central operations was notified that the gas flow had been stopped and repairs were being made to the ruptured gas line. These repairs were completed and the crew left the area at 7:44 p.m. Mr. Bechdol stated that it took an hour to get the gas street crew enroute to the scene because all the gas street crews had completed their normal shift and were either at home, or on their way home. It was therefore necessary to go through the callout overtime list to assemble a crew, contact the crew members and have them travel to LaPorte operating headquarters to get the necessary equipment.

Mr. Bechdol stated that there was no interruption to service to any customer during this incident because the 2" line that was interrupted was a 2-way feed. He also stated that there was not a danger of a natural gas explosion. NIPSCO readings first done by the area servicemen that arrived on the scene in 10 minutes indicated the gas was dissipating into the atmosphere and that there was no immediate danger of an explosion. Mr. Bechdol also said that onsite personnel continued to make these readings until the gas flow was turned off.

Mr. Bechdol disagreed with Ms. Chubb's concern that NIPSCO's response time might have increased if the LaPorte operating headquarters had been closed. In his opinion, had the company Area Service Model and Consolidation Model been fully implemented in the LaPorte area, the response time and repair time would have been reduced. First, he said that the area servicemen's response time of 10 minutes demonstrated, in his opinion, that the Area Service Model was working well in the Michigan City area. Second, he said if consolidation had been implemented, NIPSCO would have had a second gas street crew working the LaPorte area on a noon to 8:00 p.m. shift. This crew would have been in the field at the time of the August 7, 2002 incident and would have immediately been dispatched to the scene. There would have been no need to gather a gas street crew from their homes, have them report to the LaPorte LOA

headquarters building and then travel to the scene. Thus, according to Mr. Bechdol, the response time of a gas street crew and ultimately the repair time, would have been significantly reduced.

Mr. Bechdol then responded to Ms. Chubb's testimony regarding a meeting between NIPSCO personnel and the parents of students at Imagination Station. He stated that there were two meetings on September 25 and 26, the purpose of which was to allow parents of any student at Imagination Station to meet with NIPSCO representatives and ask any questions that they might have regarding the August 7, 2002 incident. He said four individual parents attended the first session and one parent attended the second session. Mr. Bechdol disagreed with Ms. Chubb's assertion that NIPSCO's personnel were intimidating and dismissive of the concerns of the parents. He said that while NIPSCO representatives told each parent that the data indicated their children were not in immediate danger, they certainly understood the trauma involved in the incident due to the noise of the interruption and the unknown involved. Mr. Bechdol also noted that Ms. Chubb did not participate in either meeting.

3. Testimony Presented Regarding the Settlement Agreements Presented in this Cause. NIPSCO submitted three Settlement Agreements in this matter for consideration by the Commission. NIPSCO and the non-settling parties submitted testimony addressing those agreements.

A. *NIPSCO's Settlement Direct Evidence.*

Mr. Kenneth P. Foley, Jr. NIPSCO offered the Supplemental Testimony of Kenneth P. Foley, Jr. in support of the Settlement Agreements with the City of Plymouth, the City of LaPorte and the City of Michigan City. Mr. Foley sponsored each of the three Settlement Agreements (Exhibit 10, Exhibit KPF-2- KPF-4). Mr. Foley testified that paragraph 1 of each of the agreements provides that NIPSCO will implement the area service model as described in its direct testimony and exhibits with the exception of the LaPorte and Plymouth LOAs. In LaPorte, the agreement calls for NIPSCO to keep open its State Highway 2 Operating Headquarters facility and to continue this facility as a reporting site for locally based field crews who will provide daily service and supplemental assistance to the area servicemen during emergency response. The agreements provide that NIPSCO will maintain operating functions at the LaPorte Operating Headquarters as they existed on the date of the Commission's March 15, 2002 status quo order. These functions are limited to (1) electric and gas construction and maintenance crews, who will provide a daily service crew-based response to gas and electric emergencies and continue their support of the area servicemen and headquarter-based gas servicemen, (2) electric metering and (3) meter reading. He explained that duties associated with clerical support, warehousing and fleet maintenance that are not directly involved in field response to gas and electric daily service calls and emergency calls will be performed from the Valparaiso Operating Headquarters buildings.

Mr. Foley stated that the LaPorte agreement calls for NIPSCO to continue to maintain appropriate materials and equipment at the LaPorte operating headquarters for both routine and emergency response needs. Second, NIPSCO will establish three remote material sites in Michigan City. At the Trail Creek substation site typical material and equipment needed for gas and electric system emergency response will be maintained. Also, electric system emergency

response materials will be maintained at the Luchtman substation site. Finally, he said the gas service equipment and materials will be maintained at the 8th Street Substation site. (Exhibit 10, page 3).

With regard to the LaPorte and Michigan City agreements, the overall staffing levels for the LaPorte LOA is set forth in Attachment A to the agreement. Moreover, during the term of the agreements, which is three years from date of Commission approval, NIPSCO agrees not to forcibly eliminate any of the job functions set forth in Attachment A. Mr. Foley also pointed out that the settlement agreements provide that, during the term, NIPSCO agrees that through attrition the total work force at the LaPorte facility will not fall below 22 people which is approximately 80% of the workforce set forth in Attachment A. He said that Attachment A sets forth the service positions and the number of employees in each service position for the LaPorte LOA. The home-based service functions are the area servicemen from the LaPorte LOA. The Headquarter-based functions are the employees who will continue to use the Highway 2 operating facility as a reporting site. He noted that under the original plan, these headquarter-based employees would have been reporting to the Valparaiso Operating Headquarters facility. He also noted that the headquarter-based support functions are listed at a zero level because these functions are not service-based and do not support emergency response. Mr. Foley said that these support functions are not being eliminated under the agreement, but rather, that they are being transferred to the Valparaiso Headquarters facility. Fleet maintenance and warehouse needs will also be supported from Valparaiso (Exhibit 10, page 4).

Mr. Foley proceeded to describe paragraph 2 of the settlement agreements wherein the parties agreed to establish a CSRQC. He said the CSRQC will be made up of three members: a representative from NIPSCO, an appointee of the mayor (who is an employee of the city), and a representative of the city council, appointed by the mayor of each community. (The agreements provide that the mayor's appointments cannot be NIPSCO employees). Mr. Foley said the purpose of the CSRQC is to establish a line of communications between the three cities and NIPSCO. Under paragraph 2 of the settlement agreements, each CSRQC will meet not less than quarterly and address service, staffing and quality issues in the LaPorte and Plymouth LOAs. The CSRQC will report verbally to the mayor of each community on a quarterly basis and on the anniversary of the effective date of the agreement, the CSRQC's will submit a written report to each mayor. (Exhibit 10, page 5).

Mr. Foley then stated the main difference between the LaPorte/Michigan City agreements and the Plymouth agreement is contained in paragraph 1. He said the current facility on Monroe Street currently serving as a headquarters for substation operation will serve as the new operating headquarters. The existing operation complex on Hoham Drive will be closed with local based crews reporting to the Monroe Street facility.

Mr. Foley testified as to why he believes the Commission should approve the three agreements. Mr. Foley indicated that there were a number of mutual benefits that the Company and community will receive as a result of Commission approval of the agreements. First, the agreements blend the advantages of the area service model with the traditional model that NIPSCO has used in the past. He said that to the extent that there are concerns about further consolidation of operating headquarters, these concerns are directly addressed in the agreements.

He noted that the parties concentrated on preserving the reporting locations of specific personnel and variability of materials and supplies directly involved in emergency response and service restoration, which is the essence of the complaint in this proceeding. He also said that the agreements reinforce the open lines of communication which exist between NIPSCO and the three communities for purposes of discussing service quality and staffing issues on an ongoing basis. Finally, he said the agreements directly address job protection issues by requiring staffing levels be maintained at levels of not less than 80% of the current staffing levels. He said in contrast, under the collective bargaining agreement, the Company has total discretion to determine whether positions which become vacant through attrition should be filled. For all these reasons, Mr. Foley was of the opinion that the settlement agreements should be approved by the Commission.

B. *Petitioner/Intervenors' Settlement Evidence*

Mr. Richard Essig. Richard Essig filed supplemental testimony in response to the Settlement Agreements between NIPSCO and the cities of LaPorte, Michigan City and Plymouth. Mr. Essig stated that the three cities focused more on avoiding ever growing costs and expenses than on service reliability. He opined that a large part of the settlement agreements centers on NIPSCO repaying these communities' accrued legal fees.

Mr. Essig further stated that the City of Plymouth's tentative settlement is good only for the City of Plymouth and virtually ignores outlying rural areas. Mr. Essig explained that the service territory of the Plymouth District contains hundreds of square miles covering all of Marshall County and parts of St. Joseph, Starke, Kosciusko and Pulaski counties.

Mr. Essig described the current district operating headquarters on 7C Road (renamed Hoham Road), which has adequate space for material vehicle storage and has state of the art garage facilities. He explained that the Monroe Street facility is approximately one-third the size of the current district operating headquarters and is nearly filled to capacity with the electric substation department and construction crews, and has no hydraulic lifts, air compressors or other equipment repair facilities. He also stated that there is inadequate space for storeroom materials and equipment storage.

With regard to staffing for Plymouth, Mr. Essig indicated that the proposal sets the floor at 22 employees, in comparison to 36 unit employees currently, which is a 39% reduction in manpower. He also stated that the City of Plymouth was recently in the news as one of the fastest growing cities in Indiana and so a 39% reduction in staff will not provide for reasonably adequate service.

With regard to the cities of LaPorte and Michigan City, while the proposal would leave the district operating headquarters open, the reduction in staffing is even more dramatic. The proposal sets the floor at 22 bargaining unit employees, in comparison to the current 46, which represents a 52% reduction in employees. The LaPorte vehicle maintenance garage would sit empty since there are no fleet equipment mechanics in the proposed settlement. In Mr. Essig's opinion, the proposed material sites for Michigan City would be rendered virtually useless if there are no employees to use the material.

Mr. Essig also believes that the CSRQC might provide for dialogue but would basically silence any complaint the cities may have to the OUCC and the Commission. He also considers the three-year term of the proposal to be rather short because NIPSCO would be free to close the districts or do whatever it chooses at the end of three years. NIPSCO would thus be able to back into their proposed closures through the expiration of the agreements. Mr. Essig believes there should be a complete review at the end of the 3-year period to determine what is in the best interest of the public.

Mr. Essig also explained that NIPSCO has been trying to implement the Area Service Model for four years without success. He indicated that NIPSCO has been unable to retain outlying servicemen for any length of time due to the overly demanding nature of the job, and he does not see how they will implement that Model in the next three years without significant alterations to it.

Mr. Essig believes that the Settlement Agreements show the flawed nature of the "Operation Excellence" plan in that the plan was designed solely to save money for NIPSCO with no consideration given to the public it serves. Mr. Essig states that by keeping the LOAs open and keeping a skeleton staff in LaPorte and Plymouth, NIPSCO is admitting the Plan cannot provide adequate service.

Mr. Essig cautioned that the cities that have settled are only concerned about themselves, and that their job is not to be concerned about the vast rural and outlying areas in LaPorte and Lake Counties or the counties serviced by the Plymouth LOA. Mr. Essig believes the outlying areas in those counties will suffer the worst if NIPSCO succeeds in effectuating "Operation Excellence."

Mr. Marlow Harmon. Marlow Harmon is a retired police officer and currently a County Commissioner for LaPorte County. Mr. Harmon reviewed the three settlement agreements and has been involved in this proceeding since it began. Mr. Harmon confirmed that he does not oppose the three Settlement Agreements to the extent that the agreements are a resolution of the concerns of the three cities involved in those settlement agreements. He also acknowledged that none of the three cities sought to resolve concerns of the other parties to this proceeding. He then explained why the settlement agreements reached between NIPSCO and the three cities are insufficient to resolve the concerns of LaPorte County.

As Mr. Harmon explained, LaPorte County is the second largest county geographically in Indiana. The Settlement Agreements would provide for a continued presence of NIPSCO in LaPorte but at a greatly reduced level. NIPSCO, with the reduced staffing levels, might be able to provide minimally adequate service to citizens in close proximity to NIPSCO's facilities within the cities of LaPorte and Michigan City but it will not be able to provide adequate service to rural customers in LaPorte County. Emergency situations in rural areas already involve greater delays in response time due to the greater travel time required to reach those rural areas. Citizens in rural areas often do not have the added protection afforded by the fire, police and emergency personnel located within the city limits who can assist in emergency situations.

Additionally, Mr. Harmon expressed concern that rural areas in LaPorte County, such as small towns like Wanatah and the unincorporated areas like Center and Coolspring townships, are experiencing growth while the populations of the cities of LaPorte and Michigan City are staying constant or slightly declining. Thus, the adverse effects of NIPSCO's cost-cutting measures on the citizens living in rural areas of LaPorte County will increase over the coming years. As a Commissioner of LaPorte County, Mr. Harmon has to be concerned with all citizens in the county, including those people who happen to live outside of city limits. The lives, safety and welfare of people living in rural areas of LaPorte County are as important to Mr. Harmon as the lives, safety and welfare of people living within the city limits of LaPorte and Michigan City.

Frederick R. Pinkerton, Jr. Frederick R. Pinkerton, Jr. submitted supplemental testimony to comment on the proposed settlement agreements between NIPSCO and the City of Plymouth, the City of LaPorte and the City of Michigan City. Mr. Pinkerton reviewed the three proposed agreements as well as the supplemental testimony of Kenneth P. Foley, Jr., Richard B. Essig and Marlow Harmon. In Mr. Pinkerton's opinion, the three settlement agreements with the cities do not address the concerns of and provide benefits to LaPorte County and Lake County. He addressed three main concerns with the settlement agreements.

First, the staffing level reductions would have a more significant impact on NIPSCO's ability to provide reasonably adequate service to outlying areas of Lake County and LaPorte County than to the cities of Plymouth, LaPorte and Michigan City. Generally, response, restoration and fix times are worse for areas that are not in proximity to a LOA and worsen yet as relevant staffing is decreased. The reduction in resources in the field decreases the available options for emergency response and increases the expected distance that responders have to travel to reach the emergency site. Increased response times may be acceptable for the cities of Plymouth, LaPorte and Michigan City but those same increases may be unacceptable in outlying areas where rural citizens are already waiting longer periods for NIPSCO personnel to respond. Furthermore, following a major storm or outage, NIPSCO will address outages and emergencies with top priority status first, such as those affecting hospitals, and then work on outages that affect the largest number of customers; thus, outages and emergencies in rural areas with typically lower priority status would be more significantly impacted by the reduction in available resources.

Second, it is doubtful that the planned implementation of the Area Service Model by NIPSCO will address the issues and concerns of LaPorte County and Lake County. The Area Service Model is the key component and means to justify the closing of LOA headquarter buildings and the reduction in field work staff. Yet, the agreements do not stipulate that the staff cuts will take place only if and when the Area Servicemen component is fully and successfully implemented. NIPSCO has touted the Area Servicemen concept as the means to provide quicker response, especially in areas that are not in close proximity to the LOA headquarters such as rural areas of LaPorte County and Lake County, but there is no guarantee of the effective implementation of that concept in the settlement agreements. On cross-examination, Mr. Pinkerton stated that the data provided in this matter was insufficient to determine the appropriate level at which the area servicemen positions need to be filled in order for the Area Service Model to be effective.

Finally, NIPSCO has not had a history of providing reasonably adequate service and satisfying its customers that would justify the reliance by LaPorte County, Lake County, or the Commission on NIPSCO's assertions and judgment. NIPSCO has consistently ranked last or near the bottom of nationally recognized customer satisfaction studies. In the most recent J.D. Power and Associates Customer Satisfaction Study released in July 2003, NIPSCO again showed that all of its purported experience, knowledge and desire to do what is right for its customers landed it at the bottom of the rankings. In fact, NIPSCO ranked last out of the 77 utilities nationwide that were included in the study. On redirect examination, Mr. Pinkerton confirmed that in the course of the seminars and conferences he has attended, he has seen nothing like NIPSCO's efforts in this case to expand areas, close service centers and reduce employees and still be able to deliver service.

C. *NIPSCO's Settlement Rebuttal Evidence.*

Mr. Kenneth P. Foley, Jr. Mr. Foley sponsored NIPSCO Exhibit 11 and disagreed that a large part of the Settlement Agreements centered on the payment of legal fees. While the settlement agreements do not mention the payment of legal fees, Mr. Foley indicated that NIPSCO has, in fact, agreed to pay approximately \$81,000 in litigated expenses. However, according to Mr. Foley, this item was one of the last issues negotiated, long after NIPSCO proposed the service structure for Plymouth and LaPorte County.

Mr. Foley went on to testify that the purpose of the CSRQC is to establish a periodic and consistent method to ensure dialog between representatives of NIPSCO and each of the three cities. He said that the settlement agreements in no way preclude the cities from registering a complaint regarding NIPSCO's service with either the OUCC, or the Commission. Rather, according to Mr. Foley, the agreements only require the cities to talk to NIPSCO first. He explained that Section 5 of each of the agreements states that during the three year term, absent an emergency, the cities agree not to file written or oral complaints with any judicial or administrative forum, without first contacting the CSRQC and providing NIPSCO or the CSRQC with at least five business days to respond with a plan to address the cure of the issue raised in any complaint. In Mr. Foley's opinion, this procedure does not preclude the cities from raising issues they perceive are serious enough that they need to be addressed either by the OUCC or the Commission even if they do not involve emergencies. It merely provides a procedure whereby NIPSCO gets an opportunity to resolve the perceived problem first. In Mr. Foley's opinion, this procedure constitutes good regulatory policy by encouraging parties to identify or resolve issues and differences of opinion prior to involving either the OUCC or the Commission and its staff.

Mr. Foley then addressed Mr. Essig's position that the three year term of the settlement was rather short and there should be a complete review at the end of the three year period as to what is in the best interests of the public. Mr. Foley first stated that Mr. Essig's assumption that the Company will automatically attempt to implement LOA consolidation in LaPorte and Plymouth as soon as the three year term expires is speculative at best. Also, the settlement agreements in no way preclude any party from filing another complaint with the Commission as was done in this case. If that happens, Mr. Foley stated that the review that Mr. Essig believes is appropriate will in fact take place. Mr. Foley was of the opinion that it is premature to make a

determination as to what actions, three years down the road, taken by NIPSCO with regard to serving its customers are in the public interest.

According to Mr. Foley, contrary to the positions offered by those opposing the settlement agreements, individuals in outlying areas will not suffer if the settlement agreements are approved by the Commission. Mr. Foley agreed with the point made by Mr. Bechdol that the vast majority of outlying areas of LaPorte County are not even served by NIPSCO. Moreover, the design of the Area Service Model puts each area serviceman within a 25 minute drive of any emergency service call from his or her area of responsibility, is a great improvement over the previous operating model advocated by the County of LaPorte.

Mr. Foley then addressed Mr. Pinkerton's testimony and his citation to the J.D. Powers Survey issued in July, 2003, which ranked NIPSCO last in customer satisfaction. He said this survey provides absolutely no basis for rejecting the Area Service Model as proposed in these three agreements. He said in July, 2003, NIPSCO became a subscriber to the J.D. Powers Survey and had just begun analyzing the underlying data. He noted that power quality and customer service account for only 32% of their overall score in the J.D. Powers Survey. Conversely, company image and price and value account for 51% of the weighting for the J.D. Powers Residential Survey. He said that NIPSCO did not do well in the survey with regard to these factors, but he also said that the price and value factor is predicated on a gross misconception. He said the customers surveyed believed that their average monthly bill had increased 43% over the last five years, whereas J.D. Powers reported to NIPSCO that the actual average monthly electric bill had increased only 8%. Also, Mr. Foley noted that the company's customers evidently did not realize that NIPSCO reduced their average monthly bills by approximately 5.6% effective July 1, 2002 and that as of that date, they were actually paying less for electricity than they were in 1987. In Mr. Foley's opinion, the results of the J.D. Powers Survey do not constitute a sufficient basis for rejecting the Area Service Model.

Mr. Foley testified that Mr. Essig was also wrong in testifying that the settlement agreements indicate a flaw with the Area Service Model. He said that the settlement agreements call for full implementation of the Area Service Model with certain facilities remaining open as a result of compromise on NIPSCO's part. He noted that the other settling parties also made compromises, and that the settlement agreements in no way reflect a flaw in the Area Service Model. In Mr. Foley's opinion, the record shows that NIPSCO's original Area Service Model established a system that would meet NIPSCO's duty to provide reasonably safe and reliable service to its customers and that the settlement agreements before the Commission clearly meet the duty imposed upon NIPSCO to provide such service.

Mr. Timothy Dehring. NIPSCO next presented the supplemental rebuttal testimony of Mr. Dehring who disagreed with the assertion that the staffing levels under the settlement agreements in LaPorte and Plymouth would be insufficient to provide reasonably adequate service. He noted that Mr. Essig focused on minimum staffing levels committed to in the settlement agreements, not the initial planned staffing levels, which are an entirely different matter. He said that the settlement agreements set forth the minimum staffing levels for positions which NIPSCO can eliminate through attrition. Mr. Dehring noted that under neither the status quo order nor the collective bargaining agreement is there any such limitation on

NIPSCO's ability to manage its workforce when positions become vacant through attrition. He also said Mr. Essig's comments on staff size do not consider the impact of positions being assigned to other headquarters. As an example, Mr. Dehring cited that, with regard to the Valparaiso/LaPorte area, total staff is expected to be reduced by only one position as compared to March, 2003. Field positions in the Valparaiso/LaPorte LOA are actually expected to grow by three positions as compared to March, 2003. Likewise, in Plymouth, where staffing of support personnel under the settlement agreement is planned to be reduced by 8 as compared to March, 2003, staffing of field response personnel is planned to increase by 1. Therefore, Mr. Dehring testified that the employees who are directly involved in the subject matter of the original complaint, for emergency response, are not subject to the staffing reductions which Mr. Essig claims.

Mr. Dehring then addressed Mr. Pinkerton's position that staff reductions absent productivity improvements or outsourcing will result in less maintenance work being done. While Mr. Dehring agreed with Mr. Pinkerton's observation, he took the position that Mr. Pinkerton was not sufficiently aware of NIPSCO's situation to assess the productivity gains available in the proposed Area Service Model nor to assess any impact on maintenance activities. Mr. Dehring explained that NIPSCO has and will continue to realize both productivity and customer service improvements as a result of implementation of the Area Service Model. First, Mr. Dehring cited the increased use of NIPSCO's construction department for planned construction and maintenance work which reduces travel time by leveraging jobsite reporting characteristics of this group. Second, he noted the Area Service Model reduces travel time for service functions because the area servicemen live in their assigned service territories. Third, economies of scale will be utilized in the consolidation of support positions, which do not impact the Company's ability to provide emergency response service. Fourth, broader scheduling and utilization of field employees enhances workload balancing and minimizes underutilized areas. Finally, Mr. Dehring said that more proficient use of technologies, such as CAD and NORS are improving the management of NIPSCO's workforce.

Mr. Dehring sponsored NIPSCO Exhibits TAD-1SR, TAD-2SR and TAD-3SR, which he contends show improving response and customer service in spite of attrition in a number of field and support type positions. According to Mr. Dehring, these exhibits demonstrate an improvement in gas leak response performance occurring over the last 8 months; improvements in the average electric outage duration during the same period; and improvements in the average electric outage frequency. He noted all these improvements during the last 8 months have been accomplished in spite of staff reductions.

Mr. Dehring then responded to Mr. Pinkerton's contention that lower staffing levels mean fewer people in the field to respond to emergencies and that the reduction of electric line personnel will result in longer restoration periods. Mr. Dehring indicated that while he agreed with Mr. Pinkerton's general observations, they had no relevancy to the staffing level that will be maintained under the settlement agreements. Under the settlement agreements, planned staffing across all the subject areas is expected to be reduced by 23 positions as compared to March, 2003. Of this expected reduction, 21 are slated to come from non-field support positions which had little, if any, role in emergency response. According to Mr. Dehring, Mr. Pinkerton's claim

of reduced field presence on two positions, out of over 300 field positions currently working in the subject LOA, did not support his assertion.

Mr. Dehring then addressed Mr. Essig's position that the Company has not been able to implement the Area Service Model for over a 4 year period. First, he stated that NIPSCO managed to fill approximately 80-90% of the area servicemen positions and that these positions have been filled for many months. He stated that when vacancies in any of these positions present themselves, replacements are sought, and in his opinion, successfully found. He noted that NIPSCO's union leadership has vigorously opposed utilization of the Area Service Model, first through arbitration, and then as a party to this proceeding. Accordingly, the first two years of the four year period mentioned by Mr. Essig were devoted to dealing with the union initiated arbitration. Mr. Dehring also said that for the last 18 months, NIPSCO has been dealing with the March 2002 status quo order. He was of the opinion that the 80-90% fulfillment rate has been accomplished in spite of the uncertainty and pressures these events placed on the area service positions. Mr. Dehring added that to the extent that the area service positions were not filled, NIPSCO had other alternatives to ensure safe and reliable service. He said NIPSCO can and has utilized alternative methods of coverage such as standby coverage, shift coverage, and scheduled overtime to provide emergency response.

Mr. Michael Bechdol. Mr. Bechdol submitted rebuttal testimony in response to Mr. Harmon's and Mr. Essig's opposition to the settlement agreements. Mr. Bechdol first discussed Mr. Harmon's allegation that the settlement agreements called for NIPSCO's continued presence within LaPorte, Plymouth and Michigan City, but at greatly reduced levels of personnel. Mr. Bechdol said that he disagrees with this statement. He noted that the positions that are reflected at a zero level in the Attachment A of each settlement agreement are positions of a support nature having nothing to do with emergency field response. He said that the operating functions that will be fully consolidated in Valparaiso under the settlement agreement are fleet maintenance, storeroom support, and clerical support which are not directly involved in emergency response. Mr. Bechdol noted that at the time the Commission issued the status quo order, NIPSCO had 14 linemen in the LaPorte Operating Headquarters. Since January 1, 2003, 3 linemen have chosen to retire. Mr. Bechdol said NIPSCO replaced all of these linemen but located them in the Valparaiso Operating Headquarters. He says NIPSCO has seven linemen currently reporting to the LaPorte Operating Headquarters and that this number does not include the 4 electric area servicemen that are covering LaPorte County. Mr. Bechdol said that two of these electric servicemen are located north of the Indiana toll road and two are responsible for service areas south of the toll road. Accordingly, Mr. Bechdol took the position that the coverage of NIPSCO for LaPorte County has been enhanced under the two settlement agreements with LaPorte and Michigan City.

Mr. Bechdol then addressed the issue of service to the outlying rural areas of LaPorte County raised as a concern by Mr. Harmon. He said that a significant portion of the customers in NIPSCO's LaPorte County electric service territory are located in the cities. According to Mr. Bechdol, NIPSCO's service territory in LaPorte consists of the cities of Michigan City, LaPorte, the Highway 421 corridor and the Highway 6 corridor. Mr. Bechdol sponsored an exhibit showing a map of LaPorte County setting forth the electric service territory of the electric utilities serving LaPorte County (NIPSCO Exhibit MDB-5). He noted that much of the

geographical area of LaPorte County is served by electric utilities other than NIPSCO. He noted that part of the Wanatah area is served by NIPSCO and part is served by Kankakee Valley REMC. He said that approximately 38,000 of NIPSCO's 43,000 customers in LaPorte County are located in the metropolitan areas of LaPorte and Michigan City which, in his opinion, compels a significant presence of linemen and area servicemen in these two municipalities.

Mr. Bechdol then addressed Mr. Harmon's concern that NIPSCO would be unable to serve the growth that is occurring in south LaPorte County near the City of Wanatah. First he said NIPSCO serves 690 electric customers in Wanatah. He noted that emergency response beyond that provided by area servicemen could be effectively dispatched from Valparaiso since Wanatah is located approximately 7 miles from Valparaiso, versus 16 miles from LaPorte. He also noted that Mr. Harmon's exhibit showing census numbers demonstrated that the number of people living in Porter County has increased by 68% over the last 30 years. Moreover, in the last 10 years, the towns of Portage, Chesteron, Valparaiso and Hebron have increased in population in the range of 12.5% to 59.5%. With the exception of Wanatah, Mr. Bechdol said all of the cities in LaPorte County have remained relatively stable from a population standpoint. As a result, in Mr. Bechdol's opinion, Mr. Harmon's own exhibit justifies the consolidation of the LaPorte and Valparaiso Operating headquarters in order to direct the workforce to where it is needed.

Mr. Bechdol also disagreed with Mr. Essig's assertion that NIPSCO has been unable to retain the area servicemen for any length of time. He said this certainly has not been the case for the service areas (Valparaiso, LaPorte and Monticello) for which he is responsible. As currently established, there are four electric servicemen each in Porter and LaPorte Counties and six electric servicemen in the Monticello area. Mr. Bechdol testified that all of these positions are filled and that 11 of the 14 electric servicemen are employees who first took the position and who maintain these positions from the day of the implementation. He said the only employees who have not stayed in place retired from their positions in Valparaiso and Monticello and these positions were immediately filled. He also testified that 10 of the current 14 electric servicemen are veteran employees with each having over 25 years of experience. With regard to the gas area service positions, he said 2 of 6 gas area positions became vacant approximately 10 days before the October 20 hearing. Those positions were put out for bids and one bid has been accepted. He further stated that the Company was in the process of offering bids for the second position.

Mr. Richard Brindley. NIPSCO next presented the supplemental rebuttal testimony of Mr. Richard Brindley who testified in response to the supplemental testimony of Mr. Essig. Mr. Brindley disagreed with Mr. Essig's statement that NIPSCO has been unable to retain outlying service representatives for any length of time. He said that with regard to both the Plymouth and Goshen LOA's, NIPSCO been able to retain the area servicemen. He testified that in the Plymouth area, NIPSCO has 6 electric area servicemen on call as compared to 1 standby person under the old operating structure. NIPSCO was able to fill these six positions when it implemented the Area Service Model, and five of these positions are currently filled today. With regard to Goshen, NIPSCO originally had five electric area servicemen. Four of the original five still maintain the positions of area servicemen. One position was vacated but that position was immediately filled by a lineman with over 30 years experience. With regard to the gas area servicemen, Mr. Brindley testified that there are thirteen gas area service positions between the

Goshen and Plymouth LOAs. Until very recently, all thirteen positions have been filled. He said that two of the employees recently left these positions in September, 2003, and these positions were filled through the bidding process. Accordingly, Mr. Brindley disagrees with Mr. Essig that the Company has been unable to fill the gas and electric area service positions in the central and eastern part of NIPSCO's service territory.

With regard to new construction activity, Mr. Brindley testified that NIPSCO has over 60% more new construction business in the Goshen area compared to the Plymouth area. This experience, according to Mr. Brindley, is consistent with the Company's experience in Warsaw, which has a new business workload of about 20% of the amount experienced in the Goshen area. He said that NIPSCO now takes care of all new electric construction business in the Warsaw area with one 2-man crew and 1 electric area serviceman as compared to 11 linemen previously. Mr. Brindley concluded that with regard to new construction business, the activity is in Goshen, not Plymouth, and that he was confident that the current level of employees would take care of all new business in an efficient manner, and at the same time, improve the Company's ability to implement emergency response.

Mr. Robert Roach. NIPSCO's final rebuttal witness Robert Roach submitted rebuttal testimony in response to allegations of Mr. Essig. In particular, Mr. Roach responded to Mr. Essig's allegation that the Monroe Street facility is approximately one-third the size of the Homan Drive facility, and is nearly filled to capacity. Mr. Roach also responded to Mr. Essig's testimony that there was inadequate space for storeroom materials and equipment storage.

Mr. Roach disagreed with all of these allegations. He stated that the Monroe Street facility will quite handily accommodate the materials and equipment that will be stored there as a primary site. He said that a 30x50 foot section of floor space is available to accommodate the materials that will be transferred from the Homan Drive facility. Additionally, he said pole racks already exist along with the electric heating hitching post that will be utilized to plug in engine heaters. He said the parking and hitching post area will be doubled in size to accommodate the addition of Homan Drive vehicles plus the existing construction department's equipment. Mr. Roach said that if additional inside storage is required there is additional room at the Monroe Street facility to utilize additional storage containers.

Mr. Roach said that the Company plans, if the settlements are approved, to upgrade and relocate a surface mount vehicle hydraulic lift along with its large capacity air compressor to the Monroe Street facility. He said this lift will accommodate all light and medium class vehicles. He said large vehicle repairs such as bucket and digger trucks will continue to be repaired at the Goshen garage facility as they are done today. He also noted that the settlement agreement calls for the retention of two garage mechanics at the Monroe Street facility so that minor repairs can be finished at that facility. Mr. Roach was of the opinion that having a garage repair facility is not critical to the efficient operation of NIPSCO's distribution system and its emergency response system. He noted that the Monroe Street facility was NIPSCO's district headquarters before the Homan facility was built. The Plymouth district along with the Warsaw district existed without local garage repair facilities for about 30 years with large vehicle repairs completed in Goshen. He also testified that local commercial vehicle repair facilities were

utilized for smaller mechanical maintenance functions, towing calls, and routine service. He said NIPSCO will continue to utilize these commercial facilities whenever it's appropriate.

4. Findings and Analysis of the Commission. In reviewing the testimony and exhibits in this proceeding the Commission recognizes that while NIPSCO was able to reach separate settlements with the cities of LaPorte, Plymouth and Michigan City, this matter was not resolved between NIPSCO and LaPorte County; USWA; Lake County; the City of Hammond; the Lake County Council; Crown Point City Council; and other individual Intervenors in this proceeding. It is also noteworthy that the OUCC, as the statutory representative of the public in the State of Indiana, was not a party to the Settlement Agreements submitted in this Cause. Presentation of this matter to the Commission took an extended period of time due to the complexity and importance of the issues; the number of parties involved in the proceeding; legal challenges to this Commission's authority to consider the issues presented in this Cause; and several agreed upon continuances to allow the parties to pursue settlement.

In examining the issues and our statutory mandate to provide oversight to utilities under our jurisdiction, we determined that issues that may impact public safety, if appropriately presented to the Commission as in this Cause, may and should be considered prior to their implementation in order to forestall impacts to public safety that may occur. While we determined that we have the requisite jurisdiction in this Cause, NIPSCO disagreed and pursued an appeal challenging this Commission's jurisdiction to halt any further action that would impact its ability to implement its Consolidation Model.

In resolving the appeal brought by NIPSCO in *Northern Ind. Public Serv. Co. v. LaPorte*, 791 N.E.2d at 276, the Court of Appeals recognized that, "the tension between government regulation and free market economic theory is as old as the Republic; it will also continue to be a part of this court's decisions concerning the IURC and public utilities they regulate." *Id.* Although some businesses should be left to operate under *laissez-faire* economic theory, other businesses affect the public interest to such a degree that they warrant government regulation. *Id.* Historically, courts looked upon efforts to regulate businesses with suspicion, but over time they recognized that changes in social and economic conditions warranted a different view of the exercise of police powers by states over certain businesses. *Id.* People's liberty often "requires the protection of law against the evils which menace the health, safety, morals, and welfare of the people." *Id.* at 277 (quoting, *West Coast Hotel v. Parrish*, 300 U.S. 379, 391, 57 S.Ct. 578, 581, 81 L.Ed. 703 (1937)). Against this backdrop, states—including Indiana—established public service commissions to regulate public utilities. *Id.*

Indiana's Public Utility Act grants this Commission the "authority to initiate investigations into a public utility's practices or acts affecting its service that are unreasonable, unsafe, insufficient, discriminatory, or inadequate." *Id.* (citing Ind. Code § 8-1-2-54). If that investigation reveals that a public utility's practices or acts are unreasonable, unsafe, insufficient, discriminatory, inadequate or otherwise unlawful, this Commission may, by order, fix just and reasonable practices and acts. *Id.* (citing Ind. Code § 8-1-2-69).

The Complaint filed in this Cause pertains to issues surrounding the quality of service provided by NIPSCO to its customers. NIPSCO is obligated to provide "reasonably adequate

service” pursuant to statute. However, issues presented in the Complaint, and supported by testimony in this Cause, have raised questions as to whether decisions regarding the means in which NIPSCO intends to provide such reasonably adequate service were thoroughly and appropriately evaluated by the Company prior to the planned implementation of certain programs. These issues are properly before the Commission in the context of a Complaint and will be addressed in this proceeding.

As certain issues were resolved by some of the parties to this proceeding, in order to present the Commission with a full and complete record on all issues the Evidentiary Hearing was conducted in two phases. In the initial phase, the parties presented testimony on the entirety of the issues presented in the Complaint filed in this Cause. In the second phase, the parties presented testimony in support of, and in opposition to, the Settlement Agreements filed in this matter. Following the submission of volumes of testimony, over several days of hearings, this matter essentially focused our attention on two models that were to be fully implemented by NIPSCO: 1) The Area Service Model, and; 2) The Consolidation Model.

In order to effectively analyze the entirety of the testimony presented in this matter we will review the Settlement Agreements in conjunction with the totality of the evidence presented in this Cause. As we have a complete record on all issues presented in this matter, reviewing the evidence in this manner should allow us to determine whether the Settlement Agreements represent a comprehensive resolution of the issues in a manner that is in the public interest, and--if not--whether the Settlement Agreements can be implemented in a fashion that would allow the Commission to conclude that they are in the public interest.

A. *Background and Overview of the Issues.* NIPSCO has proceeded with implementation of the Area Service Model, which has been utilized on a widespread basis for several years. Under the Area Service Model, NIPSCO designed smaller geographical areas to be serviced by the Area Servicemen in an effort to improve response times to service calls, particularly during non-business hours and in emergency situations. Even considering the staffing issues that NIPSCO has faced with respect to the Area Service Model during the pendency of this proceeding, the Area Service Model (with appropriate support from the LOAs) appears to represent a sound approach which in most instances should allow NIPSCO to improve response times and maintain service quality in its service territory. NIPSCO’s implementation of its Area Service Model was not challenged in this proceeding and NIPSCO has proceeded with the implementation of that Model over the past two years, with some degree of success. Therefore, with respect to this issue we find that aspect of the Settlement Agreements is in the public interest and should be approved.

The Consolidation Model—not the Area Service Model—is the plan at issue in this proceeding. Pursuant to its Consolidation Model NIPSCO initially planned to simultaneously close five (5) of its LOA headquarters (Crown Point, Hammond, LaPorte, Plymouth and LaGrange) in an effort to save \$140,000 per week. The Consolidation Model comes on the heels of previous consolidations, and would (if it had been fully implemented as originally proposed and viewed in their historic context) have reduced the number of LOAs in NIPSCO’s service

area by 50%--from a past total of sixteen (16) LOAs to eight (8) LOAs.⁴ The purpose of NIPSCO's Consolidation Plan was perhaps best stated by the OUCC at the Preliminary Hearing in this matter when the OUCC provided what it characterized as a "voice of reason" and stated that: "I think NIPSCO has attempted today to present their evidence in support of this as a service enhancement plan where I think it is clear to all of us that this is really a business plan. It is about saving money." The OUCC confirmed that although NIPSCO has a right to save money and make management decisions, it was clear from the evidence that there are "serious reliability issues" and "serious safety issues" involved. (Preliminary Hearing Transcript, pp. B-49 and 50).

B. Commission Review and Analysis of the Settlement Agreements. Having presented this overview, we turn our attention to consideration of the individual Settlement Agreements between NIPSCO and the cities of LaPorte, Michigan City and Plymouth, and a consideration of the original Complaint as it pertains to all other parties to this proceeding.

As the Commission has noted in numerous cases that have been resolved by agreement, Settlements presented to the Commission are not ordinary contracts between private parties. *United States Gypsum, Inc. v. Indiana Gas Co.*, 735 N.E.2d 790, 803 (Ind. 2000). When the Commission approves a settlement, that settlement "loses its status as a strictly private contract and takes on a public interest gloss." *Id.* (quoting *Citizens Action Coalition v. PSI Energy*, 664 N.E.2d 401, 406 (Ind. Ct. App. 1996)). Thus, the Commission "may not accept a settlement merely because the private parties are satisfied; rather [the Commission] must consider whether the public interest will be served by accepting the settlement." *Citizens Action Coalition*, 664 N.E.2d at 406.

Furthermore, any Commission decision, ruling, or order – including the approval of a settlement – must be supported by specific findings of fact and sufficient evidence. *United States Gypsum*, 735 N.E.2d at 795 (citing *Citizens Action Coalition v. Public Service Co.*, 582 N.E.2d 330, 331 (Ind. 1991)). The Commission's own procedural rules require that settlements be supported by probative evidence. 170 IAC 1-1.1-17(d). Therefore, before the Commission can approve the Settlement Agreement, we must determine whether the evidence in this Cause sufficiently supports the conclusions that the Settlement Agreement is reasonable, just, and consistent with the purpose of Indiana Code § 8-1-2, and that such agreement serves the public interest.

In addition, pursuant to 170 IAC 1-1.1-17(a) "It is the policy of the commission to review and accept appropriate settlements. Nothing contained in this rule shall be construed as precluding parties in a proceeding from submitting, at any time prior to the issuance of a final order in the proceeding, settlement proposals or from requesting a hearing for such purpose." In addition, 170 IAC 1-1.1-17(b) indicates that "Settlement agreements by some or all of the parties to a proceeding may be filed with the commission and received into evidence as part of the record of the proceeding." While it is the policy of this Commission to review and accept appropriate settlements, the settlement must be supported by probative evidence. 170 IAC 1-1.1-

⁴ See, Petitioner's Exhibits RBE 2-4. NIPSCO's Consolidation Model was subsequently modified by the Settlement Agreements as NIPSCO agreed to continue to utilize the LOAs located in the cities of Plymouth and LaPorte, Indiana.

17(d). The Commission may reject, in whole or in part, any proposed settlement if the commission determines that the settlement is not in the public interest. In the event that the commission rejects a proposed settlement, in whole or in part, the commission must state on the record or by written order the reasons for such rejection. 170 IAC 1-1.1-17(c).

Pursuant to the provisions set forth in 170 IAC 1-1.1-17, the Settlement Agreements were properly submitted by some of the parties to this proceeding and may be properly considered by the Commission in determining whether they are supported by probative evidence and in the public interest.

C. Findings Regarding the Consolidation Model. NIPSCO's proposed Consolidation Model is modified by the Settlement Agreements in that NIPSCO has agreed not to close the LaPorte or Plymouth LOAs. Under the terms of the Settlement Agreements, NIPSCO would be permitted to proceed to close the Crown Point and Hammond LOAs. While NIPSCO has agreed to keep certain LOAs open, the Settlement Agreements also provide for a reduced number of field personnel reporting from those LOAs, and in the case of Plymouth, the closure of the Hoham Street Operating Headquarters and the conversion of the Monroe Street Substation into a new operating headquarters. Under the terms of the Settlement Agreements, clerical personnel, storeroom staff, and garage mechanics from the LaPorte LOA will be relocated to Valparaiso, and clerical and storeroom staff will be moved from Plymouth to Goshen. Neither LaPorte nor Lake County opposed the Settlement Agreements as a resolution of the individual cities' concerns. The USWA while submitting criticisms of the Settlement Agreements, did not expressly request that the Commission reject them. Rather, the main focus of the non-settling parties was to emphasize that the resolution of the individual concerns of these cities did not resolve the concerns of the counties and other non-settling parties.

The Commission recognizes that the Settlement Agreements provide certain benefits to the cities, which include: NIPSCO's consent to keep two of the LOAs open for at least three additional years; limitations on the reduction of field personnel staff through attrition; and the establishment of a Community Service Response and Quality Committee that is intended to improve communication between NIPSCO and communities in which it provides service. While the Settlement Agreements benefit specific local communities and resolve the issues between NIPSCO and the cities of LaPorte, Michigan City, and Plymouth, Indiana, the Settlement Agreements represent a compromise that has not resolved all of the issues.

Accordingly, as the issues presented in this matter are numerous and complex the Commission must review the Settlement Agreements entered between some of the parties in a manner that will allow us to determine whether their approval would result in the comprehensive resolution of this Cause in a manner that would be in the public interest for the entirety of NIPSCO's service territory. In order to fully consider each of the issues presented in this matter, vis-à-vis the express terms contained in the Settlement Agreements, we turn to our analysis of the entirety of the evidence presented in this matter and consider the following issues:

D. *Successes and Challenges Faced by NIPSCO's Area Service Model.* While the parties did not question NIPSCO's implementation of its Area Service Model, they did present extensive testimony regarding the challenges presented by the area servicemen positions, as well as the challenges faced by NIPSCO in filling and retaining workers in these positions. These issues bear a direct relationship on NIPSCO's plans to close LOAs as the primary, if not sole, basis for implementation of the Consolidation Model by NIPSCO is the purported benefits and advantages created by its Area Service Model.

As confirmed at the beginning of this proceeding, NIPSCO's consolidation plan is the direct result of its deployment of its electric and gas workforce in accordance with the Area Service Model. Once gas and electric servicemen were assigned to and lived in specific areas, certain LOAs would represent redundant facilities. Mr. Brindley explained that the Area Service Model made the consolidation of the Warsaw and Goshen LOAs possible. As Mr. Dehring explained in his rebuttal testimony, NIPSCO is confident that the elements of the Area Service Model, specifically those linked to territory residency requirements and response obligations, would serve as the "key enablers" to consolidation. Thus, a necessary requirement to the consolidation of a LOA is the existence and successful implementation of NIPSCO's Area Service Model in the area encompassed by the LOA that NIPSCO is seeking to close.

Based on our review of the testimony presented, an important element of the successful implementation of the Area Service Model is the existence of area servicemen in a region. No benefit exists from the Area Service Model if, in reality, staffing issues result in the routine utilization of area servicemen that do not live in an assigned area. NIPSCO's Area Service Model is designed to have one or two electric area servicemen in each assigned electric area, and two gas area servicemen in each assigned gas area. The assignment of one or two electric area servicemen and two gas area servicemen is based upon the expected workloads associated with each position. The geographical boundaries are set so that the servicemen can respond to an emergency within their assigned area in 25 minutes. If vacancies in the positions increase, so may potential response times.

Timothy Dehring, one of the key NIPSCO management employees responsible for implementing the Area Service Model, submitted prefiled rebuttal testimony in which he indicated that 90% of the area servicemen positions were filled. At the time of the Evidentiary Hearing in late 2003, that number had decreased to 81%, with an expected range of 80-90% on average. Mr. Dehring indicated that in an "optimum world" all positions would be filled although the Model is still effective even if a position is vacant from time to time. NIPSCO's discussion of the overall vacancy rate for area servicemen positions is helpful to our analysis of the issue. However, as NIPSCO has agreed to keep LOAs located in the cities of Plymouth and LaPorte open, we will focus our attention on vacancy rates for area servicemen serving in areas served by the Hammond and Crown Point LOAs, as this could have an impact on NIPSCO's service quality.

At the final day of hearings held in this matter on January 15, 2004, NIPSCO submitted its Exhibits 17 and 18 (apparently prepared as of January 13, 2004) which identify the pending vacancies for its electric and gas area servicemen positions respectively. In Hammond, 100% (six of six) of the gas area servicemen positions had pending vacancies, and 75% (three of four)

of the electric area servicemen positions had pending vacancies. In Crown Point, which is also located in Lake County, 50% (two of four) of the electric area servicemen positions had pending vacancies and 25% (one of four) of the gas area servicemen positions had pending vacancies. Within Lake County as a whole (Hammond, Crown Point and Gary), the vacancy rate for NIPSCO's area servicemen positions was more than 57% (eight of fourteen) on the gas side and 50% (five of ten) on the electric side.

Testimony presented in this Cause further illustrates the difficulties that NIPSCO has had in filling area servicemen positions in the Hammond region. George Tessman worked as an electrical area serviceman in the Hammond region and indicated that while working in that position the other three electric area servicemen positions were vacant, requiring him to routinely cover other assigned areas in Hammond. The demands of that job, including being on call 24 hours a day for six days per week, adversely impacted his home life. Additionally, as Robert Wise explained, an area serviceman has to work 16 straight hours to be entitled to 8 hours of sleep; if an area serviceman worked for 14 hours, went home and then was called back later, he might in fact work more than 16 hours in a 24-hour period. The difficulties with the job are magnified when one area serviceman becomes responsible for other assigned areas due to vacancies in other positions.

While NIPSCO indicated that the vacancies in these positions are due, in part, to the "uncertainties" of this proceeding, and a corresponding unwillingness of employees to remain in these positions during the pendency of this proceeding, the Commission is concerned that - at least in the short term- the challenges and difficulties imposed by area servicemen positions may represent an ongoing challenge to NIPSCO regarding its effort to attract and retain employees in these positions. If these vacancies were to continue, this could threaten the effective implementation of the Consolidation Model in the Hammond region and result in public safety issues. Therefore, this factor weighs against implementation of NIPSCO's Consolidation Model regarding the Hammond and Crown Point LOAs.

Another factor we must consider in determining whether to permit NIPSCO to proceed with its Consolidation Model is whether the closing of LOAs serves the public interest even if all area servicemen positions are filled and the Area Service Model is working as planned. We observe that a central premise of the Area Service Model is that putting employees closer to the work they perform is beneficial from a service quality and safety perspective. Based on the testimony presented, there will be instances when a first responder cannot solve or cure a problem and will need additional assistance. In those situations, according to NIPSCO's witnesses, the next step is to call upon LOA-based crews for assistance. Close proximity to a non-business hour or emergency event is no less beneficial to a second-responder crew than it is to first responder area servicemen. If NIPSCO closes both the Hammond and Crown Point LOAs, then linemen from Gary would be required to drive to southern Lake County to provide assistance in emergencies. That distance, through a densely populated county filled with traffic, traffic signals, and railroad crossings, could result in second-responder response times that are greater than required for reasonably adequate service.

Finally, this Commission takes into account the possible impacts of implementation of the Consolidation Model if it is allowed to proceed as outlined in the Settlement Agreements. As

initially envisioned, NIPSCO intended to simultaneously close five (5) of its LOA headquarters (Crown Point, Hammond, LaPorte, LaGrange and Plymouth). While the number of LOAs to be closed has been reduced to two (2) under the terms of the Settlement Agreements, this still represents a serious undertaking based on what appears to be a limited review of the potential impact that the consolidation might have on service quality.

The Petitioner and Intervenors have presented this Commission with testimony in which several witnesses expressed concern that implementation of the Consolidation Model, if allowed to proceed, will have a negative impact on service quality. While much of this testimony discusses past service quality issues it does provide important background information in a context that is important to our consideration of the issues in this Cause.

Weather conditions in northwest Indiana can present enormous challenges to NIPSCO in its efforts to provide service quality and NIPSCO must be ready to systematically respond to weather related issues. Weather related issues can delay response times as a result of road conditions, and such delays could be exacerbated if crews do not have equipment and support readily available. When winter weather plays a role in outages there is little room for error which was demonstrated by testimony regarding an outage at the LaPorte Hospital. Based on the testimony presented it is apparent that even with the LaPorte LOA operational, NIPSCO was unable to maintain the LaPorte Hospital's two feeds during two separate instances in 2002, one of which left the Hospital operating at 50% of its power needs through its own backup generators for more than an hour.

While the LOAs that NIPSCO intends to close were operating during this event, the testimony presented in this matter, regarding scenarios that have and could be faced by area servicemen without appropriate backup and support from the LOAs is an important factor in our consideration of the issues in this Cause. In addition, testimony regarding the impact that past consolidation of LOAs had on service response times provides some indication of the likely impact of proceeding with the Consolidation Model under the terms of the Settlement Agreements.

While NIPSCO's planned closure of the LOAs has been stayed by this proceeding almost from its inception by the Commission's Order issued in this Cause on March 15, 2002, Mr. Sandy was able to provide testimony regarding an incident that occurred on March 12, 2002, prior to the issuance of the Commission's Stay Order, that sheds some light on issues that could arise as a result of implementation of the Consolidation Model. The event described by Mr. Sandy involved an underground gas leak that required back-up from a crew at the LaPorte headquarters. Mr. Sandy was personally involved in this event, and was the first responder on the scene. Mr. Sandy indicated that while he was able to secure the site, first responders do not have the necessary equipment to facilitate underground repairs which are done by NIPSCO gas street crews that report and work out of local operating headquarters. Mr. Sandy therefore called on a crew from the LaPorte LOA. Mr. Sandy indicated that the crew arrived at the scene in approximately 45 minutes, but needed a rotary drill that had been moved to Valparaiso due to NIPSCO's plans to close the LaPorte LOA under the Consolidation Model. As NIPSCO only had one rotary drill in LaPorte County, someone had to drive to Valparaiso to get the drill which took approximately two hours. According to Mr. Sandy, if the LaPorte LOA had been closed the

crew would have had to make a longer trip from Valparaiso and then return for the rotary drill which would have magnified the delay.

While an area serviceman may be able to promptly respond and address many problems that may arise, more serious problems cannot be addressed by the area serviceman alone. If a serious problem occurs, it is important that area servicemen have the necessary and timely support of additional crews who have the necessary equipment readily available. While we recognize that Mr. Sandy's testimony on this issue is limited to a single event, absent assurances by NIPSCO, or an evaluation of the short and long term impact of the Consolidation Model, we can only conclude, based the testimony presented in this Cause, and the obvious shortcomings in the development of the Consolidation Model, that implementation of the Consolidation Model could have a very real impact on the health and safety of residents within NIPSCO's service territory.

In our effort to further evaluate the possible impact of the Consolidation Model we also find the testimony presented by Mr. Essig regarding his experience with past consolidations to be instructive. At the time of the hearing Mr. Essig had been an employee of NIPSCO for 38 years, 34 of which he served as a lineman. Mr. Essig provided some historical perspective to the closure of LOAs by sponsoring Exhibit RBE-2, which shows the NIPSCO District Headquarters as they existed prior to the first wave of closings; Exhibit RBE-3, which shows the closings of the Warsaw and Michigan City facilities; and RBE-4, which reflects the LOAs that would remain under the Consolidation Plan. These exhibits demonstrate, in rather dramatic fashion, where NIPSCO began with respect to its use of LOAs and where it initially proposed to end up through implementation of a Consolidation Plan. Based on these exhibits, it seems that past closures increased the distance between fewer and fewer LOAs and could have resulted in increased response times. The exhibits also demonstrate that implementation of the Consolidation Model would further increase distances between the remaining LOAs.

Mr. Essig described his personal experience regarding the impact of the closing of the Warsaw facility (which was part of the last such closings of LOAs prior to this proceeding) on service quality and safety. Since the Warsaw facility was closed, Mr. Essig indicated that he personally observed increases in response time. According to Mr. Essig, it is simply a matter of distance, as "miles are miles." Even if an outlying repairman is near, often a repair will require specialized equipment such as bucket trucks, backhoes, trenchers and boom trucks. Also, the required parts to make the repair may be found only at the District Headquarters, requiring additional time to obtain those parts after the repair has been evaluated. Mr. Essig indicated that NIPSCO's response times have increased as facilities have been closed and that he received complaints from members of the public, fire departments and police departments in the Warsaw area regarding NIPSCO's response times after the consolidation. Mr. Donaldson, Deputy Chief of the Michigan City Fire Department, presented his own testimony in this Cause in which he also concluded that NIPSCO's response times had increased when they closed facilities in the past resulting in longer response times and greater risk to the public safety.

5. Conclusion. According to Barrett Hatches, the former CEO of NIPSCO and part of the team involved in developing the Consolidation Model, as originally conceived, the Operation Excellence initiative (which included the Consolidation Model) was to be a

disciplined, data-driven process which took into account the best practices from NiSource, LDCs, and the utility industry as a whole. However, in this proceeding, NIPSCO did not present evidence of any benchmarking standards, best practices from other NiSource LDCs, or best practices from any other utility in support of its Consolidation Model. While this is a complaint proceeding in which the burden of proof is on the Complainants, we note that NIPSCO presented nothing in the way of the Company's own independent evaluation and analysis of its proposed plan (that considered issues in addition to short term cost savings) prior to implementation. As Mr. Pinkerton explained, the methodology used to determine if consolidation of LOAs may be appropriate is not new, can be prepared within 6-8 weeks, and is generally performed before a utility acts on any consolidation plan.

Based on the evidence presented, it appears that while the Operation Excellence model as originally conceived, was to be based on careful research and analysis prior to its implementation, it also seems that NIPSCO ultimately bypassed the research and analysis component in favor of moving directly to anticipated cost savings of \$140,000 per week. NIPSCO, as a regulated utility in the state of Indiana is responsible for the day to day management of its operation, and the Commission will not attempt to substitute its judgment for that of a utility subject to our jurisdiction. However, we would expect that an issue as important and potentially far reaching as the planned consolidation of existing facilities and personnel would only occur following careful and thorough review of the numerous and complex issues associated with the proposal. Based on our review of the testimony presented in this Cause, we agree with Mr. Pinkerton that such a review should include the preparation of studies of the type suggested (and not performed by NIPSCO) in this proceeding, which could assist the company in fully evaluating all aspects of its proposed plan prior to implementation.

The evidence presented by the Complainants, coupled with the lack of any evidence on the part of NIPSCO that demonstrates that it undertook a careful and thoughtful review of the Consolidation Model vis-à-vis its possible impact on customers and service quality, has resulted in uncertainties regarding its implementation. This need not have been the case in this proceeding. Had NIPSCO undertaken a review of the Consolidation Model in the manner envisioned by Barrett Hatches to ensure that the model was, in fact, the result of a disciplined, data-driven process which took into account the best practices of the utility industry as a whole, this proceeding seemingly could have been greatly abbreviated.

As stated in the matter of *South E. Ind. Nat. Gas Co. v. Ingram*, 617 N.E.2d 943 (Ind. App. 1993), "[t]he legislature has explicitly given the IURC the authority, upon its own motion, I.C. 8-1-2-58, or when the issue is otherwise properly presented to it, to investigate into the "service" provided by a regulated utility, to find facts based upon the evidence before it, and to prospectively rectify any perceived inadequacies in the utility's practices or the regulatory scheme. I.C. 8-1-2-54, 69. Inherent in this grant of power is the implicit power and authority to do that which is necessary to effectuate the regulatory scheme." *Id.* Therefore, the Commission has the requisite authority to address the issues presented in this matter and cannot ignore the possible impact that implementation of the Consolidation Model might have on service quality and reliability. To the extent that we find that NIPSCO's incomplete review and development of the Consolidation Model appears likely to present service quality issues in the future (even if the model is implemented as modified by the Settlement Agreements) we will not wait for negative

impacts to service quality to occur prior to addressing an issue that was properly presented to us in this matter as part of a Complaint proceeding under I.C. 8-1-2-54.

Based on the testimony presented, we agree with the Complainants that the Area Serviceman Model should continue to be used in conjunction with appropriate support from the LOAs in order to avoid the possible degradation of service quality in NIPSCO's service territory. LOAs have been used for many years and appear to play an import role in NIPSCO's daily operation as they are used to store tools and equipment, house repair shops, maintain storerooms and records, conduct staff meetings, and store trucks out of the weather. Therefore, it is important that LOAs should continue to be utilized by the Company. In critical situations, in which material and support are needed from the LOAs, it is apparent that implementation of the Consolidation Model, as originally proposed, could result in delays that could adversely impact service quality and public safety and should not be implemented without modification.

Our consideration of the factors pertinent to NIPSCO's Consolidation Model leave us convinced that NIPSCO should not proceed with the closings of any of the LOAs as a result of this proceeding. NIPSCO voluntarily withdrew its plan to close the LaGrange LOA. By agreement with three cities involved in this matter, it again voluntarily withdrew its decision to close the LaPorte and Plymouth LOAs. The remaining two LOAs to be closed, Hammond and Crown Point, exist in densely populated areas where NIPSCO's testimony confirms it has had difficulty in effectively implementing its Area Service Model. Therefore, as a result of this proceeding we find that the Hammond and Crown Point LOA headquarters should remain open, operational, and staffed in the manner they were staffed prior to NIPSCO's efforts to implement its Consolidation Model and the issuance of our March 15, 2002 Order in this Cause.

The Commission also finds that evidence presented by the Complainants' and Intervenors regarding their contention that implementation of NIPSCO's proposed Consolidation Model could increase outage restoration times, coupled with NIPSCO's failure to fully evaluate the possible ramifications of the Consolidation Model prior to moving forward with its implementation, leave us with little in the way of a baseline analysis of the present state of the Company's reliability and safety. Development of such a baseline could be helpful in the Commission's evaluation of the possible impacts that any future consolidation might have on NIPSCO's service quality. Therefore, as part of our resolution of this Cause, the Commission also finds that NIPSCO should file annual reports with the Commission, during a three (3) year period, that address: Customer Average Interruption Duration Index ("CAIDI"); System Average Interruption Duration Index ("SAIDI"); and, System Average Interruption Frequency Index ("SAIFI"), as defined in IAC 4-1-23, for each of NIPSCO's operating areas. The initial reports shall be filed with the Commission twelve (12) months following the effective date of this Order.

In addition, while the Commission recognizes and appreciates the assurances provided by Mr. Foley, that the Settlement Agreements do not prevent the parties from coming to the Commission or the OUCC, the Commission finds that it should be kept informed of the issues during the terms of the respective Settlement Agreements approved in this Cause. Therefore, we find that NIPSCO shall provide copies of all written reports, submitted to each of the respective mayors under the terms of the Settlement Agreements, to the Commission and the OUCC. The Commission also finds that the parties to the Settlement Agreements must obtain Commission

approval prior to any modification or extension of the terms of the Settlement Agreements approved under this Cause.

Based on the entirety of the evidence presented in this cause, and consistent with our findings set-forth herein, including the specific additional reporting requirements, we find that the Settlement Agreements are in the public interest and should be approved. We also find that NIPSCO's Consolidation Model should not be implemented at this time. As a result of this proceeding we find that the Hammond and Crown Point LOA headquarters should remain open, operational, and staffed in the manner they were staffed prior to NIPSCO's efforts to implement its Consolidation Model and the issuance of our March 15, 2002 Order in this Cause.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The Settlement Agreements tendered by the cities of LaPorte, Michigan City and Plymouth are hereby approved and may be implemented consistent with our findings herein.
2. NIPSCO is hereby authorized to continue using its Area Service Model as part of a continuum of service that continues to require and utilize sufficient LOA-based crews and other LOA-based personnel where and when necessary.
3. As a result of this proceeding the Hammond and Crown Point LOA headquarters shall remain open, operational, and staffed in the manner they were staffed prior to NIPSCO's efforts to implement its Consolidation Model and the issuance of our March 15, 2002 Order in this Cause.
4. NIPSCO shall file annual reports with the Commission, during a three (3) year period, that address Customer Average Interruption Duration Index, System Average Interruption Duration Index, and System Average Interruption Frequency index, as defined in IAC 4-1-23, for each of its operating areas. The initial reports shall be filed with the Commission twelve (12) months from the effective date of this Order.
5. This Order is effective on or after its date of approval.

McCARTY, HADLEY AND LANDIS CONCUR; ZIEGNER ABSENT:
APPROVED: AUG 10 2005

**I hereby certify that the above is a true
and correct copy of the Order as approved.**



Nancy E. Manley

Secretary to the Commission

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN RE AN EMERGENCY COMPLAINT)
AGAINST NORTHERN INDIANA PUBLIC)
SERVICE COMPANY ("NIPSCO") BY)
THE COUNTY OF LAPORTE INDIANA)
AND THE CITY OF MICHIGAN CITY)
INDIANA RELATING TO THE PRACTICES)
AND ACTS AFFECTING OR RELATING)
TO THE SERVICE OF NIPSCO AS BEING)
UNSAFE, UNREASONABLE AND)
INSUFFICIENT PURSUANT TO IC 8-1-2-54,)
AND REQUEST FOR COMMISSION)
INVESTIGATION PURSUANT TO IC 8-1-2-58)
AND REQUEST FOR AN INTERIM STATUS)
QUO ORDER)

CAUSE NO. 42194

ORDER ON RECONSIDERATION

APPROVED: OCT 19 2005

BY THE COMMISSION:

David W. Hadley, Commissioner

Scott R. Storms, Chief Administrative Law Judge

On March 8, 2002, the LaPorte County Board of Commissioners and the City of Michigan City ("Petitioners" or "Complainants") filed an Emergency Complaint ("Complainant") against Northern Indiana Public Service Company, Inc., (hereinafter referred to as "NIPSCO" or "Respondent" or "Company") with the Indiana Utility Regulatory Commission ("Commission") in response to NIPSCO's plans to consolidate numerous Local Operating Areas ("LOAs" or "maintenance facilities") in its service territory. Following its review of the Complaint and supporting affidavits the Commission, on March 15, 2002, issued an Emergency Order requiring NIPSCO to "cease taking any actions in furtherance of its planned maintenance office closings and service district expansion" until a preliminary review was completed by the Commission.

On April 10, 2002, the Commission held a Prehearing Conference and Preliminary Hearing and heard evidence from numerous witnesses. On April 24, 2002, the Commission approved an Order in this Cause which included determinations made in its Emergency Order issued on March 15, 2002. On April 29, 2002, NIPSCO filed its *Notice of Appeal* of the Commission's April 24, 2002 Order. The Indiana Court of Appeals affirmed the Commission's decision in *Northern Indiana Public Service Company v. LaPorte County* 791 N.E.2d 271 (Ind. Ct. App. 2003). An Evidentiary Hearing was conducted in this matter over the course of five days concluding on January 15, 2004. On August 10, 2005, the Commission issued a Final Order in this Cause.

On August 30, 2005, the Respondent filed its *Verified Petition of Northern Indiana Public Service Company for Rehearing and Reconsideration* ("Motion for Reconsideration"). On September 7, 2005, United Steel Workers of America filed *USWA's Response to "Verified Petition on Northern Indiana Public Service Company for Rehearing and Reconsideration."* On September 9, 2005, the City of Crown Point, and Joint Intervenor Mayor Dan Klein, Vicki Klein, Robert and Sheila Corbin filed the *Reply of City of Crown Point and Joint Intervenor*.¹ On September 12, 2005, LaPorte County, Indiana, Lake County, Indiana and the Lake County Council filed *Petitioner LaPorte County and Intervenor Lake County and Lake County Council's Response in Opposition to NIPSCO's Verified Petition for Rehearing and Reconsideration*.² On September 16, 2005, the Respondent filed its *Reply of Northern Indiana Public Service Company*. On September 22, 2005, The Hammond City Council filed its *Objection to Northern Indiana Public Service Company's Verified Petition for Rehearing and Reconsideration*. On September 26, 2005, LaPorte County, Indiana, Lake County, Indiana and the Lake County Council filed a *Motion to Strike Portions of NIPSCO's Reply Brief*.³ On October 6, 2005, the Respondent filed a *Response to the Motion to Strike*. On October 13, 2005, LaPorte County, Indiana, Lake County, Indiana and the Lake County Council filed a *Reply in Support of Motion to Strike Portions of NIPSCO's Reply Brief*.

1. **Overview of Issues Presented by NIPSCO in its Motion for Reconsideration.** In its Motion for Reconsideration NIPSCO contends that the Commission exceeded its legal authority in this proceeding and seeks reconsideration of two specific aspects of the Commission's Final Order resolving the Complaint filed in this Cause. First, the Company requests reconsideration of the Commission's determination that the Hammond and Crown Point LOAs should remain open. Second, the Company requests reconsideration of the Commission's determination that NIPSCO should file certain annual reports.

NIPSCO's Motion for Reconsideration is colored by a claim, presented to the Commission for the first time, that this matter was a union driven complaint proceeding. NIPSCO's contention that the Complaint filed by the Petitioners was actually a union driven proceeding, along with background information that purportedly framed the issue, was presented for the first time in NIPSCO's Motion for Reconsideration. As this issue is not found anywhere in the record of this proceeding it is not considered further by the Commission.

1. The Intervenor's Reply contains a settlement agreement entered into between the City of Crown Point and NIPSCO that these Intervenor indicate is "similar to settlement agreements approved by the Commission in its August 10, 2005 Order." As the record of this proceeding is closed, the settlement agreement cannot appropriately be considered by the Commission in this proceeding.

2. On September 16, 2005, the Respondent filed a *Motion of Northern Indiana Public Service Company to Strike*. On September 26, 2005, LaPorte County, Lake County and the Lake County Council filed *Petitioner LaPorte County and Intervenor Lake County and Lake County Council's Response in Opposition to NIPSCO's Motion to Strike*. On October 4, 2005, NIPSCO filed a *Notice of Withdrawal of Motion to Strike*.

3. The Motion to Strike requests that the Commission strike portions of NIPSCO's response regarding the settlement agreement with Crown Point, Indiana. As we have determined that we can not consider the settlement agreement, the Motion to Strike is hereby denied.

NIPSCO further asserts that the Commission ignored evidence presented by NIPSCO in reaching the findings set forth in its Final Order. NIPSCO's arguments, with respect to issues that are part of the record in this proceeding, are based on a reiteration of previously asserted policy and factual arguments that were considered and rejected by the Commission in its Final Order. With respect to the annual reporting requirements contained in the Final Order, it appears that NIPSCO misunderstood the nature of the information being requested by the Commission. Accordingly, the reporting requirement issue is clarified in this Order. With the exception of clarification of the reporting requirement issue, and as discussed further herein, we hereby reject NIPSCO's Motion for Reconsideration on all other grounds.

2. Commission Findings and Analysis. Requests for rehearing are governed by the requirements set forth in 170 IAC 1-1.1-22(e)(1), which states, *inter alia*, that if a petition seeks rehearing, it shall be verified or supported by affidavit and shall set forth:

- (A) The nature and purpose of the evidence to be introduced at rehearing.
- (B) The reason or reasons such new evidence was not available at the time of the hearing or could not be discovered with due diligence.
- (C) A statement of how such evidence purportedly would affect the outcome of the proceeding if received into the record.
- (D) A showing that the evidence will not be merely cumulative.

NIPSCO's Motion for Reconsideration fails to address any of the issues required by 170 IAC 1-1.1-22(e)(1). For that reason, we find that NIPSCO's request is properly limited to request for reconsideration.

It is well settled in Indiana that the General Assembly created the Commission primarily as a "fact-finding body with the technical expertise to administer the regulatory scheme devised by the legislature." *United States Gypsum v. Indiana Gas Co.*, 735 N.E.2d 790, 795 (Ind. 2000). This broad grant of regulatory authority includes implicit powers necessary to effectuate the statutory regulatory scheme. *Office of Utility Consumer Counselor v. Public Serv. Co. of Indiana, Inc.*, 608 N.E.2d 1362, 1363 (Ind. 1993). While orders of the Commission are subject to appellate review to determine whether they are supported by specific findings of fact and by sufficient evidence, and to determine whether orders are contrary to law, on matters within its discretion the Commission enjoys wide discretion. *United States Gypsum*, 735 N.E.2d at 795. Determinations made by the Commission will not be lightly overridden just because the Court of Appeals might reach a contrary opinion on the same evidence. *Id.*

While NIPSCO may disagree with our specific findings and conclusions in this proceeding there is no basis whatsoever to support a claim that the Commission ignored evidence presented by any party to this proceeding. The Commission takes its role as a fact-finding body very seriously and recognizes the importance that the thorough review of testimony and evidence plays in allowing us to reach a considered determination on issues presented to us for resolution. The Final Order issued in this Cause is the product of several days of hearings and hundreds of pages of prefiled testimony.

The Presiding Officers were present during the entirety of the hearing and were able to carefully consider the testimony and evidence presented and observe the demeanor and credibility of the witnesses. The Final Order in this Cause is a lengthy, detailed, and thorough analysis of the complex issues presented in this matter. In its Motion for Reconsideration, NIPSCO merely invites the Commission to allow the Company to act as the trier-of-fact and substitute its conclusion--based on its own consideration of the evidence--for our own. We decline NIPSCO's invitation, and find that simply urging us to reweigh the evidence in a manner that supports arguments that were fully presented and rejected by the Commission in its Final Order does not justify reconsideration.

The Commission further rejects, as a basis for reconsideration, NIPSCO's claim that the Commission has overstepped the bounds of its authority or that our findings in this proceeding represent a radical departure from past Commission actions. In reaching this conclusion, the Commission notes that we fully discussed the legal and factual underpinnings of our decision and placed our discussion of the issues within the context of the governing case law and appropriate statutory provisions. While our Final Order is replete with citations to applicable statutory authorities and case law, the conclusion of the Final Order contains the following overview:

As stated in the matter of *South E. Ind. Nat. Gas Co. v. Ingram*, 617 N.E.2d 943 (Ind. App. 1993), "[t]he legislature has explicitly given the IURC the authority, upon its own motion, I.C. 8-1-2-58, or when the issue is otherwise properly presented to it, to investigate into the "service" provided by a regulated utility, to find facts based upon the evidence before it, and to prospectively rectify any perceived inadequacies in the utility's practices or the regulatory scheme. I.C. 8-1-2-54, 69. Inherent in this grant of power is the implicit power and authority to do that which is necessary to effectuate the regulatory scheme." *Id.* Therefore, the Commission has the requisite authority to address the issues presented in this matter and cannot ignore the possible impact that implementation of the Consolidation Model might have on service quality and reliability. To the extent that we find that NIPSCO's incomplete review and development of the Consolidation Model appears likely to present service quality issues in the future (even if the model is implemented as modified by the Settlement Agreements) we will not wait for negative impacts to service quality to occur prior to addressing an issue that was properly presented to us in this matter as part of a Complaint proceeding under I.C. 8-1-2-54.

NIPSCO's Motion for Reconsideration would have us fundamentally change the conclusion resolving this Complaint proceeding. We find that modifying our Final Order to allow NIPSCO to proceed with a Consolidation Model, that we determined was based on incomplete review and development, and wait for negative impacts to service quality to occur, would not represent responsible regulatory oversight. We therefore reject NIPSCO's argument on this issue.

As a final matter the Company questions the Commission's requirement that NIPSCO file annual reports for three years that address the Customer Average Interruption Duration Index ("CAIDI"), the System Average Interruption Duration Index ("SAIDI") and System Average Interruption Frequency Index ("SAIFI") as defined in 170 IAC 4-1-22. In its Motion for

Reconsideration NIPSCO indicates that the Final Order ignores the fact that NIPSCO has already filed CAIDI, SAIDI and SAIFI data for the last three years with the Commission as required by the Commission's rules. NIPSCO's argument on this issue appears to be based on a misunderstanding of the information that should be filed pursuant to the terms of the Final Order. The Commission recognizes that NIPSCO has already filed system-wide indices for CAIDI, SAIDI and SAIFI. The Final Order is more specific and closely targeted to address the issues presented in this proceeding. We therefore clarify that NIPSCO should file annual reports for three years which contain CAIDI, SAIDI and SAIFI indices for the *sub-regions* identified in the proceeding.

Based on the foregoing, we find that the reporting requirements contained in our Final Order should be clarified as specifically set-forth herein. In all other respects we find that NIPSCO's Motion for Reconsideration should be denied.

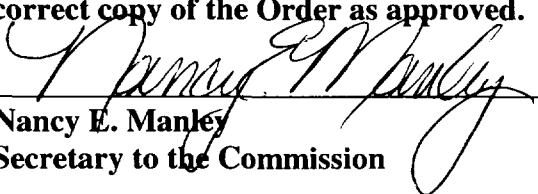
IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION THAT:

1. The Commission clarifies the reporting requirements contained in its August 20, 2005 Order in this Cause to reflect that NIPSCO shall file annual reports for three years which contain CAIDI, SAIDI and SAIFI indices for the *sub-regions* identified in the proceeding.
2. The Commission finds that in all other respects NIPSCO's Motion for Reconsideration is denied.
3. This Order is effective on and after the date of its approval.

HARDY, HADLEY, LANDIS, SERVER & ZIEGNER CONCUR;

APPROVED: OCT 19 2005

I hereby certify that the above is a true and correct copy of the Order as approved.



Nancy E. Manley
Secretary to the Commission

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
SECOND SET OF INFORMATION REQUESTS FROM UWUA LOCAL 273
D.T.E. 06-31

Date: June 28, 2006

Responsible: Stephen H. Bryant, President

UWUA 2-4: (Exh. BSG-1, p. 9)

- (a) Please list by name or other description the planning, budget, strategic or other documents through which NiSource and Bay State “set policies and goals; develop and coordinate strategies and objectives; and implement programs that support those strategies and objectives,” and provide a copy of each such document for the period January 1, 2003 to date.
- (b) To the extent not provided in response to (a), please list by name or other description the planning, budget, strategic or other documents through which NiSource and Bay State senior management communicate to “directors and managers” the corporate policies and goals and provide a copy of each such document for the period January 1, 2003 to date.

RESPONSE: (a), (b) The description at Exh. BSG-1, p. 9, states the following:

“Bay State and NiSource have implemented a business model that addresses the overall management objectives of NiSource, as well as the needs of Bay State’s local utility operations, in a way that achieves the goal of providing safe and reliable service while maximizing system-wide efficiencies and maintaining service quality. This model uses a combination of local and NiSource-wide initiatives to (1) set policies and goals, (2) develop and coordinate strategies and objectives, and (3) implement programs that support those strategies and objectives. In general, NiSource and Bay State senior management establish policies and goals. Then, directors and managers are responsible for developing strategies and objectives consistent with the policies and goals, and implementation occurs at the front-line manager and supervisor level.”

The objectives of the corporation, that is, safe and reliable service, maximizing system-wide efficiencies and maintaining service quality, are implemented through Performance Management. Please see Attachment UWUA-2-4 for a description of the Performance Management (PM) process. This process provides an electronic-based work objective and assessment tool. Performance objectives, including those described in the paragraph on page 9 of Exh. BSG-1, are cascaded from senior management to management to employees throughout the organization.



Why Performance Management (PM)

Transforming To

What is Performance Management

Overall Performance Management Process:

1. Leadership Team sets Operating Plans (goals and objectives) for the year
2. Employees align goals across the organization to support operating plans, organization goals, and business unit goals by creating objectives with performance measures.
3. Leaders and Employees focus on personal development through the use of competencies (the behaviors, personal attributes, knowledge and skills that correlate to success in a role or position)
4. Leaders and Employees monitor progress and provide feedback throughout the year (formally and informally).

What is Performance Management

Performance management is the process by which we establish and align goals across the organization to ensure we deliver on our commitments to our customers.

Performance Management is an ongoing process through which we communicate annual goals based upon our strategic operating plan, identify and ensure we build skills necessary to execute our plans, and proactively manage our progress and successes.

Although Performance Management is an ongoing process, objectives and competencies are selected, planned, and reviewed on a yearly basis.

This alignment of goals across the organization is depicted in the following diagram:

Create a Direct Line of Sight Between Business Goals and Employee Results

Bay State Gas Company
DTE 06-31
Attachment UWUA 2-4
Page 4 of 17

Corporate Goals

Business Unit Goals

Department Goals

Leader Desired Results

Employee Desired Results

Environmental Forces



Results

Transforming To

Successful Performance Management

In order to get results:

- Goals have to be set
- Progress checked
- Course corrections made
- Feedback provided
- Development needs identified and pursued

These things should be done informally and formally throughout the year, by both employees and their managers.



Performance Management (PM) Process and Roles

Transforming To

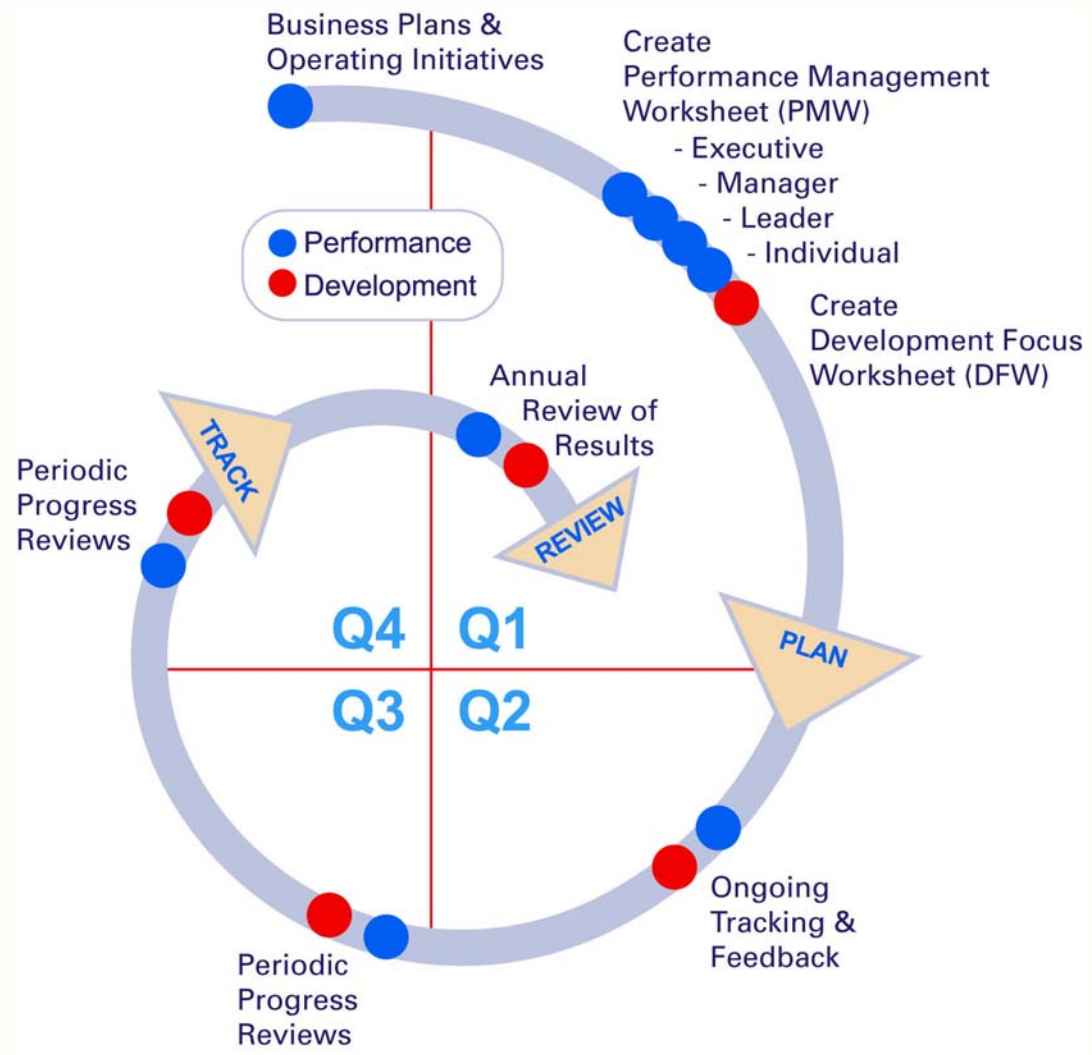
Performance Management Summary Steps

The major steps in the NiSource PM process are:

1. Executives Share Operating Plans
2. All employees create their Performance Management Worksheets (PMW) with objectives
3. All employees create their Development Focus Worksheets (DFW) with competencies
4. All employees track their ongoing progress and feedback throughout the entire process.
5. All employees conduct a mid-year review with leader
6. All employees conduct a final review at the end of the year with leader

*** See next slide for a graphical overview of the
NiSource Performance Management process.**

Performance Management Process Overview



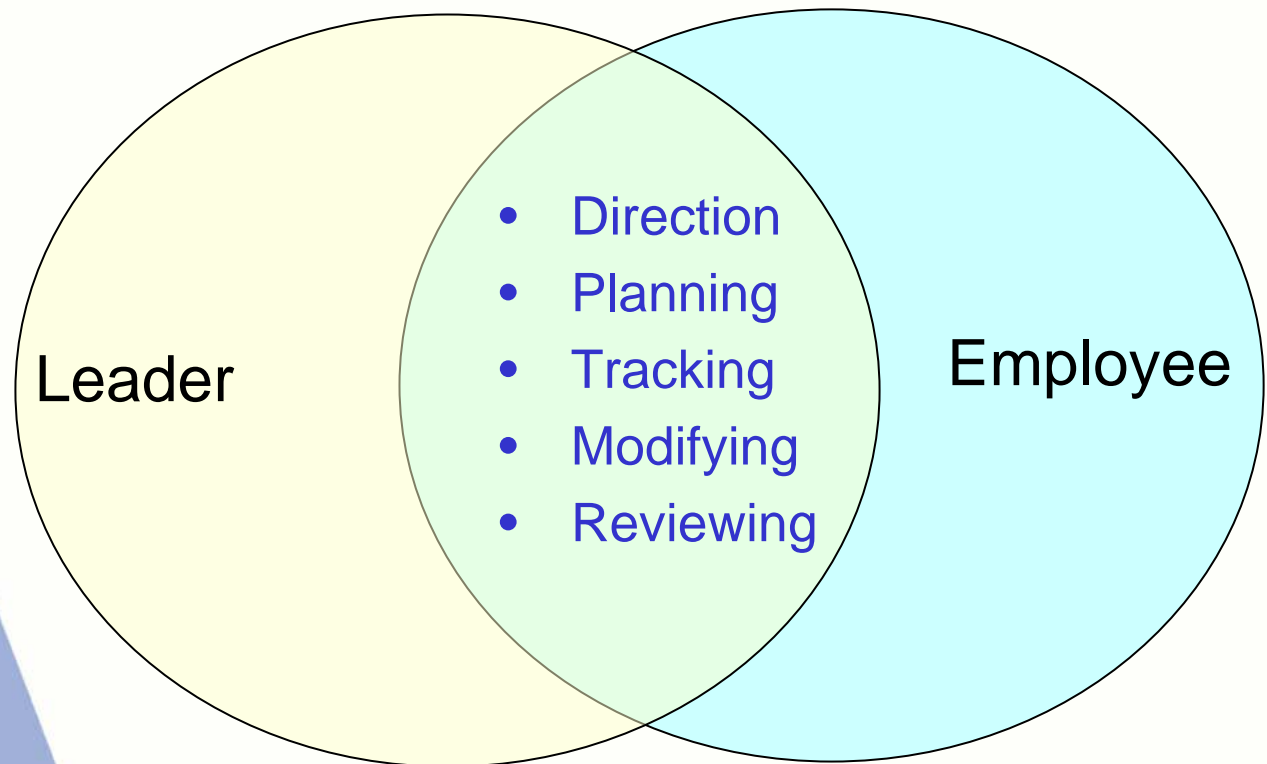
Transforming To

Annual Performance Management Process

Leaders and Employees Share Responsibility

For successful performance management, all leaders and their employees must work together in all phases of the process.

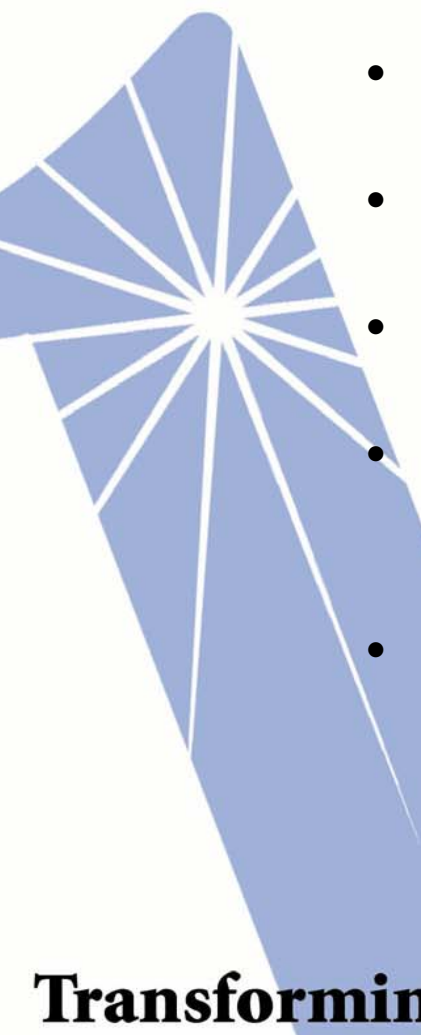
This process is meant to facilitate and increase the communication between leaders and employees.



Step One: Share Business Plans & Operating Initiatives

During Step 1, Leaders...

- Clearly communicate the vision and direction of the business and cascade relevant goals to employees
- Demonstrate commitment to business direction and their employees desired results
- Ensure understanding in each employee, of how he/she impacts the “big picture”
- Encourage and engage employees in each stage of the performance management process
- Create initial PMW from cascaded objectives and additional objectives created by the employee
- Ask each employee to:
 - Create initial PMW from cascaded objectives.
 - Manage his/her work activities against the PMW measures.
 - Review own progress against desired results.



Step Two: Create PMW

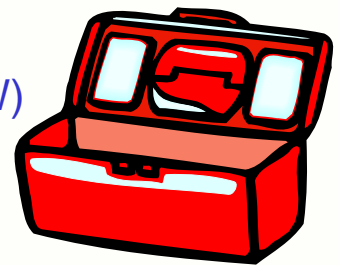
A completed Performance Management Worksheet (PMW) may contain a list of organizational objectives, business unit objectives, and personal objectives for the year.

When Employees begin working on their PMW, Leaders...

- Commit to performance planning
- Communicate performance planning as a shared responsibility between employees and his/her leader
- Strengthen working relationships through frequent meetings, check-ins, and open door policies
- Involve each employee in his/her own personal development, monitoring, and tracking of performance

Tool: Performance Management Worksheet (PMW)
in Performance Source

Transforming To



Step Two: Create PMW continued

When Leaders create their PMWs they should...

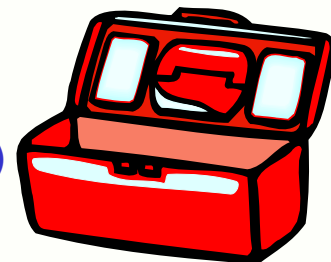
- Create business unit objectives (for upcoming performance year)
- Develop own desired results based on business unit objectives
- Assure appropriate cascade of key objectives in Performance Source

When Employees create their PMWs they should...

- Create initial draft of desired objectives based on business unit goals and leader's desired results

When creating their PMWs, Leaders & Employees should...

- Meet to review business goals and objectives
- Discuss and revise first draft of individual desired objectives
- Reach agreement on employee's desired objectives
- Meet at least quarterly to discuss progress on desired results
- Conduct a formal mid-year and final evaluation



Step Three: Create DFW

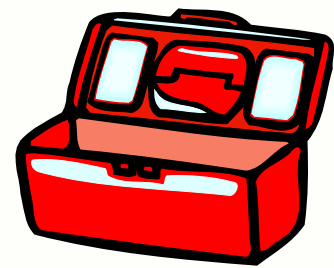
A completed Development Focus Worksheet (DFW) may contain one or two competencies to be developed during the year.

The DFW should be created at the same time or right after the PMW is created.

When creating the DFW, Leaders & Employees...

- Work with each other to build a DFW that builds skills or changes behaviors that are essential to organization success
- Meet at least quarterly to discuss progress on desired results
- Conduct a formal mid-year and final evaluation

Tools: Development Focus Worksheet (DFW)
in Performance Source



Transforming To

Step Four: Ongoing Tracking & Feedback

Ongoing tracking and feedback is more informal and continuously occurs throughout the year.

Throughout the Performance Management process, Leaders & Employees...

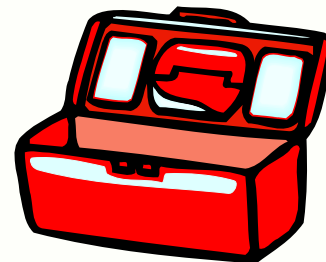
- Work with each other throughout the year to review status against desired results
- Assess and document performance accomplishments and trends (objectives and competencies)
- Document adjustments to objectives and competency plans as business conditions and/or functional changes mandate
- Gather feedback from appropriate others to gain greater perspective on work, working relationships, and behaviors
- Meet at least quarterly to discuss progress on desired results

Employees should...

- Enter information into Performance Source as necessary

Transforming To

Tools: DFW/Performance Results Form
in Performance Source



Step Four: Ongoing Tracking & Feedback

- When business priorities change and/or the Employee's job role changes:

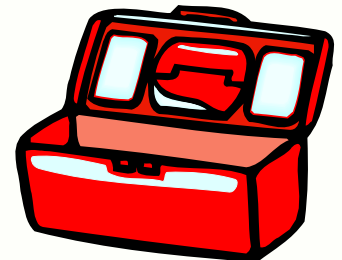
Leaders & Employees should...

- Work with each other to realign desired results (objectives and competencies) with new business priorities
 - Agree on the modified priorities for the performance year
 - Collaboratively review measures of results (Fast Feedback)
 - Discuss ways to achieve success
- When changing your PMW, it is recommended that you change and/or add the objectives in your PMW.

Employees should...

- Enter changes into Performance Source as necessary.

Tools: DFW/Performance Results Form
in Performance Source



Transforming To

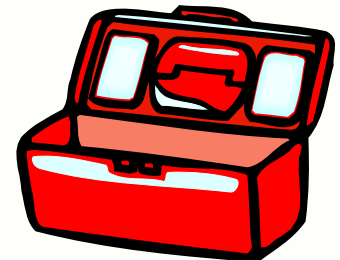
Step Five: Mid-Year Review

While ongoing tracking and feedback is more informal and continuously occurs, the mid-year review is a formal step in the process.

- **Sometime during the middle of the year, the Employee & Leader should...**
 - Review mid year's results – no surprises*
 - Gather input from other people
 - Summarize performance accomplishments
 - Discuss performance progress for the year
 - Discuss and revise performance plan for the rest of the year

*Note: There should not be any surprises when documenting results because all feedback should have been discussed formally and/or informally through ongoing tracking and feedback.

Tools: DFW/Performance Results Form
in Performance Source



Step Six: Final Review

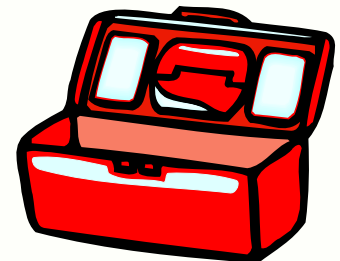
While ongoing tracking and feedback is more informal and continuously occurs, the mid-year review is a formal step in the process.

The last formal step in the process occurs at the end of the year or early 1Q.

- **During the Final Review the Employee & Leader should...**
 - Review the year's results – no surprises*
 - Gather input from others
 - Summarize performance accomplishments
 - Discuss performance for the year
 - Consider potential objectives and competencies for future development

*Note: There should not be any surprises when documenting results because all feedback should have been discussed formally and/or informally through ongoing tracking and feedback.

Tools: DFW/Performance Results Form
in Performance Source



COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
SECOND SET OF INFORMATION REQUESTS FROM UWUA LOCAL 273
D.T.E. 06-31

Date: June 28, 2006

Responsible: Stephen H. Bryant, President

UWUA 2-5: Please state the current position of Violet Sistovaris with NiSource, including a description of her duties. Include the dates and nature of any prior positions she held with the company.

RESPONSE: Ms. Sistovaris is Senior Vice President, NiSource Administrative Services and has held that position since April 1, 2005. She is responsible for the corporate functions of meter-to-cash, customer contact centers, supply chain management, information technology, aviation, real estate/facilities management, business continuity, security, and governance. From October 2003 to April 2005, she was Vice President, customer contact centers, responsible for managing the call centers that supported the NiSource distribution companies. From January 2001 to October 2003, she was Executive Director responsible for managing the call centers that supported the NiSource distribution companies. Ms. Sistovaris originally joined the Columbia Energy Group in 1995 and held various positions thereafter dealing with customer service, human resources and employee training.

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
SECOND SET OF INFORMATION REQUESTS FROM UWUA LOCAL 273
D.T.E. 06-31

Date: June 28, 2006

Responsible: Stephen H. Bryant, President

UWUA 2-7: Please provide a table listing the level of NiSource's long-term and short-term debt, as of January and June for each year 2000 to 2006.

RESPONSE: Please see Attachment UWUA 2-7 for the requested information.

NiSource Inc. & Subsidiaries
Schedule of Long-Term and Short-Term Debt
(\$ in millions)

As of:	Dec-00	Jun-01	Dec-01	Jun-02	Dec-02	Jun-03	Dec-03	Jun-04	Dec-04	Jun-05	Dec-05
Long Term Debt	5,802.7	6,125.8	6,065.1	5,664.5	4,849.5	5,041.7	5,993.4	5,573.1	4,835.9	4,807.3	5,271.2
Current Portion of Long Term Debt	64.8	97.4	411.3	692.8	1,224.9	926.8	118.3	366.1	1,300.0	1,260.1	440.7
Company-obligated mandatorily redeemable preferred securities	345.0	345.0	345.0	345.0	345.0	-	-	-	-	-	-
Short Term Debt	2,496.7	1,937.1	1,854.3	1,000.7	913.1	859.4	685.5	143.5	307.6	-	898.0
Total Debt	8,709.2	8,505.4	8,675.7	7,703.0	7,332.5	6,827.9	6,797.2	6,082.7	6,443.4	6,067.4	6,609.9